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Redeveloping California: Finding the Legislative Agenda for the 1990's

Senate Committee on Local Government

California Legislature

Senate Committee on Local Government

MARIAN BERGESON
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Summary Report from the Interim Hearing

of the

SENATE COMMITTEE ON LOCAL GOVERNMENT
Senator Marian Bergeson, Chairman

REDEVELOPING CALIFORNIA FINDING THE LEGISLATIVE AGENDA FOR THE 1990's

December 7, 1989
Fourth Floor Conference Room
Community Redevelopment Agency
Los Angeles, California

California Legislature

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Division of Housing Policy Development
State Department of Housing and Community Development

Kenneth J. Emanuels*
Legislative Advocate
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Dan Wall
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Juanita Tate
Concerned Citizens of South Central Los Angeles

David Diaz

Scott Halper
President
Hollywood Homeowners Association

Sherry Passmore-Curtis*
Citizens Action

Emma Fishbeck*
Grand Jurors' Association

Mike Neely
Director
Homeless Outreach Program

Estela Lopez
Director
Miracle on Broadway

Honorable Chris Norby*
City Councilmember
City of Fullerton

Honorable Sandra Genis*
City Councilmember
City of Costa Mesa

J. J. Daniels
Better Government Association of California

Samuel Schiffer*
Inner City Greens

Frank Wong*

Sally Cruver*

[* - see written material reprinted in this report]

In addition, the Committee received written materials from the following individuals: James R. Andruss, Sarah E. Foster, Ben Gilmore, Susan Golding, James O. Hamilton, Norton Halper, Brenda Hendricks, Lorin Lovejoy, Frank and Justina Ramirez.

Senator Bergeson opened the Committee's hearing with a brief statement in which she outlined the purpose of the session. She noted that her Committee hears nearly a dozen bills affecting redevelopment topics every year. "We understand each of the individual bills that we work on," the Senator said,

"But we need to re-examine the context in which these bills operate. We recognize each **tree**, but it's time to remember what the **forest** looks like."

She also explained that the hearing was not a legislative investigation into particular redevelopment projects. "We're not here to put redevelopment on trial," the Senator said. Senator Bergeson also noted that eminent domain would not be a major part of the Senate Committee's hearing. A bill which would limit redevelopment agencies' eminent domain powers, **AB 160 (Mountjoy, 1989)**, "is still properly before the Assembly Housing Committee," she explained.

SPECIFIC FINDINGS

Public administrators recite Miles Law which says, "Where you stand depends on where you sit." Rufus Miles coined his Law to explain that a person's own values and experiences directly influence his or her political actions. The witnesses who testified to the Committee repeatedly demonstrated the accurate insight of Miles Law. This portion of the summary report distills the witnesses' comments into a dozen findings.

- **The purpose of redevelopment.** To local officials, redevelopment is a key tool for promoting economic development. State officials were skeptical. Some witnesses described the benefits of redevelopment, while others rejected its use for economic development.

- **Urbanization and blight.** Redevelopment agencies will sponsor legislation to prevent "bare land" projects which were supposed to stop after 1983. Other witnesses want the Legislature to adopt a specific statutory definition of "blight."

- **Affordable housing.** Housing advocates want the Legislature to focus redevelopment agencies on low-income housing and replacement programs. Redevelopment agencies' housing production will increase in the future. There was no support for redevelopment agencies spending their housing funds outside their own jurisdictions.

- **Setting limits.** Witnesses were upset at projects that seem to continue forever. They want the Legislature to impose a 20-year time limit.

- **Statements of indebtedness.** Counties will sponsor bills increasing their vigilance on statements of indebtedness.

- **Fiscal review committees**. State officials may be interested in reviewing redevelopment proposals. Counties continue to complain about redevelopment's fiscal effects.

- **Effects on school finance**. The diversion from the State General Fund is probably $400 million. If "Test 2" takes effect under Proposition 98, state costs will go up. Schools are not using the 2% pass-through provision. Schools are not reporting the facilities built by redevelopment agencies.

- **Governance**. Witnesses split on whether local elected officials should run redevelopment agencies or whether they should delegate responsibility to appointed officials.

- **Citizen participation**. Opponents of redevelopment want the Legislature to require more detailed public notices. Organizing project area committees continues to be a problem.

- **Reporting requirements**. State officials and redevelopment agencies want the Legislature to make the current requirments permanent. State officials want stiffer penalties for redevelopment agencies that do not comply.

- **Special legislation for special projects**. The Legislature should rewrite the obsolete law for redevelopment agencies in disaster areas.

- **Eminent domain**. Although the Committee did not focus on eminent domain, it remains a controversial issue.

POLICY ISSUES

The law and practice of redevelopment in California have many facets. Because redevelopment affects individuals and groups in different ways, consensus can be elusive. This summary reports the witnesses' diverse views. After an initial discussion of the purposes of redevelopment, it touches on each of the policy issues that appears in the staff background report.

Purposes and goals. Although the witnesses agreed that the origins of redevelopment are found in the slum clearance programs after World War II, they disagreed whether redevelopment agencies should pursue other goals.

Noting that the federal government "has elected to leave most urban issues to state and local governments," **John Tuite** explained how the Los Angeles Community Redevelopment Agency has pursued a variety of goals: job creation, housing cons-

truction, mixed-use and commercial development, and office projects. **Estela Lopez** told the Committee that redevelopment is an effective way to link public and private efforts to revitalize downtown areas. Lopez pointed to her own program, "Miracle on Broadway," as an example of a redevelopment agency's partnership that stimulates private reinvestment.

The partnership theme came up again in presentations by two other witnesses whose programs cooperate with the Los Angeles Community Redevelopment Agency. "The Legislature must have a broader view of redevelopment," advised **Maxene Johnston.** Then **Mike Neely** told the Committee that "we need a vision of the future. A vision of California" that focuses on people, not just on physical development. Neely called it a "can-do" attitude.

"Redevelopment has met the goals it was meant to meet," said **Dwight Stenbakken** who found agreement from **Senator Cecil Green.** The Senator added that without redevelopment, California cities could be worse off. The blight that has plagued Eastern and Midwestern central cities has not occurred on the West Coast because of redevelopment agencies. Private reinvestment might have taken place without redevelopment, but it would not have been as orderly or efficiently.

But **Sherry Passmore-Curtis** disagreed. Redevelopment's purpose should be just to eliminate blight, not to promote economic development. She decried the tendency of local officials to use redevelopment to promote business instead of using their police powers to regulate blighted conditions. The Legislature should consider separating the "blight fight" from efforts to promote economic development. Redevelopment's use of tax increment financing distorts the market forces that should be guiding development, according to **Chris Norby.** Redevelopment activities wind up favoring some businesses at the expense of others. Redevelopment is "state-sponsored 'corporatism' which we don't want in our country," Norby said. **Sally Cruver** told the Committee under redevelopment the middle class "is being socially engineered out of existence."

Poor residents find that redevelopment radically changes the character of their neighborhoods. Making Watts a prime target for private investment "may make it impossible for the indigenous community to remain there," according to **Juanita Tate.** This conflict raises a "philosophical question that needs to be resolved," said **David Diaz.** Is the purpose of redevelopment to attract jobs or to boost an area's declining property values? Redevelopment has become a "double-whammy on both the poor and the middle class," Diaz continued. Be-

cause the most valuable land is locked out of the property tax base, the middle class must pay more to finance the public services needed by the poor. There is no "benefit equity test" in redevelopment, especially for minority communities.

"Redevelopment has changed the way that California looks," said **Pete Schaafsma,** but state legislators need to evaluate its results in light of broader budget issues. While redevelopment agencies attract private investment to local projects, they do not necessarily promote statewide and regional goals for economic development. Schaafsma also advised the legislators that the existing structure of redevelopment does not promote cooperation with other economic development groups. He questioned whether all the local uses of redevelopment promote the state's own goals for economic development.

Dan Rabovsky explained that by pursuing retailers, redevelopment officials just influence where companies locate rather than actually creating new sales. "If all cities offer inducements to Price Clubs, then all we're doing is subsidizing Price Clubs," Rabovsky said.

Urbanization and blight. The lack of a precise statutory definition of "blight" troubled several witnesses. **David Diaz** termed the current law "ambiguous" and "hypocritical." The Legislature needs "to cut the B.S. on blight." Either clean up the law and make it fit the original purposes or just go ahead and open it up for any kind of development, Diaz said. **Sherry Passmore-Curtis** also favored a detailed statutory definition of blight which she said would save time, money, and the necessity of lawsuits. **Sandra Genis** echoed this call for more precision. According to **Juanita Tate,** "graffiti means redevelopment."

When the Committee discussed why "bare land" projects continue to be created even after the 1983 reform bill, **Wayne Beck** told the legislators that the State Controller's data for 1987-88 is "quite reliable." **Ken Emanuels** conceded that the adversarial relationship that the Legislature intended when it passed the Costa and Hannigan bills is not working. "Our highest priority," Emanuels said, will be to propose new corrective procedures to prevent vacant land projects.

Affordable housing. One of the most controversial facets of redevelopment law is the requirement for redevelopment agencies to assist in the production of affordable housing. It is clear, as **Dan Rabovsky** told the senators, that the state "has decided to exert policy priority" on housing programs for redevelopment agencies. But several

witnesses, including **David Diaz** and **Emma Fishbeck**, were not pleased with how local officials perform their duty.

The State Controller and the State Department of Housing and Community Development use different approaches in counting redevelopment agencies' housing efforts. **Wayne Beck** asked the Legislature to clarify whether redevelopment officials should be able to count debt payments as contributions to their Low and Moderate Income Housing Funds. **Margaret Bell** explained that her Department recognized debt proceeds as one of three sources of revenue which flow into redevelopment agencies' Housing Funds. Improvements in the Department's reporting procedures will result in much better information for decision makers. Bell added that redevelopment agencies' Low and Moderate Income Housing Funds "provide one of the largest pools of financial assistance available for affordable housing projects."

Because of Assemblyman Polanco's 1988 use-it-or-lose-it bill, **Ken Emanuels** predicted that these extraordinary cash balances will drop very rapidly. Redevelopment officials do not want to turn over control of their funds to county housing authorities. **Martin Coren** agreed that the next ten years will be more important than the last decade in terms of housing production.

The Legislature needs to strengthen the housing provisions of redevelopment law, said **Kim Savage** who recommended three specific reforms. Redevelopment agencies should not spend their housing funds to subsidize housing for moderate income families. Diaz also shared this view. Because moderate income housing is politically more acceptable, Savage said that redevelopment officials tend to help those households but ignore the needs of "the homeless and underhoused." Then, pointing to her successful agreement with the Los Angeles Community Redevelopment Agency over the displacement of 410 households because of the expansion of a convention center, Savage said that the Legislature should require redevelopment agencies to replace the units that they destroy with units in the same price category. Savage also wanted the Legislature to require private developers in a redevelopment project area to supply replacement housing for the units that they destroy.

Maxene Johnston wanted the Legislature to require redevelopment agencies to integrate public social service programs into their housing efforts. **Juanita Tate** said that the Legislature should link redevelopment agencies' ability to use eminent domain with a commitment to replace the housing they destroy. Unless a redevelopment agency has an effective re-

placement housing program, it should not be allowed to use eminent domain. Further, the Legislature should prohibit local officials from issuing certificates of occupancy on any building in a redevelopment project until replacement housing is actually in place.

When **Senator Bergeson** asked **Scott Halper** if the current relocation statute was adequate, Halper called it a "nice law," but noted that individual landowners still have to file lawsuits to enforce their legal rights. **Sandra Genis** recommended that the Legislature amend state law to provide better time lines and more flexible relocation benefits.

Genis also opposed the use of redevelopment funds for providing housing outside the city in which the money was raised. This concept appeared in the background staff report. Genis instead advocated a better jobs/housing balance within specific project areas. **Sherry Passmore-Curtis** also opposed the concept, asking which agency would account for these funds in its Gann limit and bonded debt limits.

Setting limits. Although the Legislature mandates that redevelopment officials must adopt limits on their financial activities, **Wayne Beck** explained to the legislators that the State Controller's Office finds it hard to track these limits. Because the state law is not specific, local officials can adopt limits that are not specific.

Amanda Susskind told the Committee that Los Angeles County will sponsor and support legislation in Sacramento that limits the unilateral extension of the length of time that redevelopment projects can remain in existence. The County will also sponsor legislation that restricts a redevelopment agency from initiating the use of tax increment financing in an existing project without going through the full fiscal review process.

Contending that city officials cannot reform themselves, **Chris Norby** said the Legislature should "pull in the reins" on existing redevelopment projects and force them to phase out. **Sandra Genis** asked the Committee to "sunset" existing redevelopment agencies.

Saying that "there has to be a cut-off point" and that "60 years is just obnoxious," **David Diaz** insisted that the Legislature limit the life of redevelopment projects to 20 years. He specifically pointed to Los Angeles Mayor Tom Bradley's desire to increase the tax increment cap on the Central Business District Project for 60 years.

Further, Diaz argued, the Legislature should set a limit on the amount of administrative costs that redevelopment officials could incur for planning and legal fees. **Emma Fishbeck** echoed the call for a state imposed limit on administrative costs.

Statements of indebtedness. According to **Wayne Beck,** the State Controller's staff has noticed that county officials are becoming more assertive in their reviews of statements of indebtedness over the last three years. Curiously, some counties did not even require redevelopment officials to file the statutorily required statements before releasing property tax increment revenues.

Having lost the Marek case, counties will push legislation giving them more control over statements of indebtedness, predicted **Martin Coren** who pointed to AB 2374 (Cortese, 1989) for example. A few moments later, **Dan Wall** fulfilled Coren's prediction and argued that county officials need more control over statements of indebtedness when cities seemed to be "kiting a loan" by creating a paper debt to justify the flow of tax increment revenues. In addition, Wall claimed, there are debts that do not track from year-to-year, making county auditors suspicious of their validity. **Amanda Susskind** announced Los Angeles County's support of AB 2374 as one remedy for these problems.

Fiscal review committees. The state government has a strong interest in redevelopment, explained **Dan Rabovsky.** Its policy interest extends to economic development and affordable housing. Its fiscal interests include $45 million a year in Special Supplemental Subventions and the effect of property tax increment financing on school districts. But there is "no state seat at the table" when fiscal review committees meet to examine proposals. When **Senator Bergeson** asked if the Legislative Analyst's Office was specifically recommending that state officials participate on these panels, Rabovsky repeated the general principle that those parties whose funds are involved should have their interests represented. **Amanda Susskind** later told the Committee that the state should participate in fiscal review committees, but counties should still retain control over these negotiations.

Ken Emanuels objected to "harassment litigation" filed by local governments which sit on fiscal review committees to force redevelopment officials into pass-through agreements. Further, counties often link their fiscal negotiations over redevelopment agreements with their policies on city annexations. **John Tuite** called these negotiations "a tough process" but recognized that fiscal "tensions" will continue be-

tween counties and redevelopment agencies. But, Emanuels noted, "virtually all" redevelopment projects in the last five years have pass-through agreements which respond to any fiscal detriment perceived by other local governments.

"But not everything is right with the world." Counties' fiscal "stake in redevelopment is growing, and growing rapidly," claimed **Dan Wall.** Counties do not want to balance their own fiscal problems on the backs of redevelopment agencies. Nevertheless, counties must be concerned by the cumulative fiscal effects of redevelopment, incorporations, annexations, and unfunded state mandates. That is why counties sponsored SB 2740 (Kopp, 1988) and SB 998 (Presley, 1989), Wall reported.

Chris Papesh provided specific examples for Riverside County, including the problems caused by shifting counties' revenues to the no- and low-property-tax cities. Susskind added that Los Angeles County's concerns over losing property tax increment revenues to redevelopment agencies coincided with the disengagement by state and federal agencies' funding for the programs that counties must run. **David Diaz** also recognized these diversions, saying that social service programs and schools need the dollars that redevelopment agencies attract.

Effects on school finance. The state is a "silent partner" in redevelopment finance through its financial support for K-14 schools, said **Dan Rabovsky.** The diversion from the State General Fund is probably $400 million, but that is not the net cost. Rabovsky then explained to the senators that there are four factors that temper the Legislative Analyst's estimate: (1) there is already some underlying growth in assessed value in project areas; (2) some projects capture growth that would have occurred anyway; (3) redevelopment affects the **location** but not the **level** of retail activity; and (4) some redevelopment spending is not always directed against blight.

Rabovsky continued by explaining how redevelopment finance interacts with the State General Fund's obligations to schools under Proposition 98 which the voters approved in November 1988. Questioned by **Senator Bergeson,** Rabovsky told the senators that when the state operates under "Test 1," redevelopment does not cause a net increase in state school apportionments to specific school districts. School districts do not see any negative fiscal effects from redevelopment activity and there is no incentive for a school district to negotiate for a pass-through agreement during the fiscal review committee process. But if "Test 2" takes effect, there will be a net increase in state school apportionments

to help pay for the combined state and local revenues needed to meet the Proposition 98's fiscal targets.

Redevelopment agencies also help school districts by donating land and even constructing new schools, Rabovsky told the Committee. But schools do not show these contributions as income when they report their revenues to state officials. This practice misrepresents schools' fiscal standing and may require the state to spend more in state aid than justified. **Ken Emanuels** told the Committee that the Community Redevelopment Agencies Association does not defend this practice.

Some schools have negotiated pass-through agreements and redevelopment agencies paid school districts $55 million in 1987-88, according to Rabovsky. As newer redevelopment projects begin to mature, these payments are likely to increase. **Wayne Beck** reminded the Committee that the Legislature directed schools to obtain the property tax revenue from the 2% growth in assessed valuation caused by inflationary pressure. But, Beck reported, the State Controller's records show that not many schools are asking for their 2% pass-through money. Schools' inaction inflates the demand for state school apportionments.

But, according to **Juanita Tate,** redevelopment officials are not doing enough to assist the schools which are located within redevelopment project areas. Helping the technical schools in Los Angeles' Central Business District would help alleviate the problems of the area's unemployed residents.

Governance. State officials, local officials, and citizens all had different views on who should run redevelopment programs.

Dan Rabovsky noted that because no state agency enforces state redevelopment law, therefore when state and local priorities conflict, local priorities get preference.

David Diaz told the Committee that redevelopment agencies should use city staff to hold down their administrative costs. But **Sandra Genis** said that redevelopment agencies should be separate from a city's regular staff to avoid conflicts of interest. How can city officials regulate a redevelopment proposal when the regulators are also the project's sponsor, Genis asked.

J. J. Daniels complained that citizens do not have enough say in the appointment of redevelopment commissioners in Los Angeles and **Samuel Schiffer** said that the Los Angeles City Council should run the redevelopment agency. **Sherry Pass-**

more-Curtis agreed that redevelopment agencies should not be run by appointees but should be directly governed by locally elected officials. Diaz told the Committee that neither appointed nor elected officials should receive any pay for governing redevelopment activities. Public office is a "civic duty," Diaz said, and does not require compensation.

Citizen participation. Having helped the Legislature draft the reform bills of the 1970s that increased citizen participation in redevelopment decisions, **Martin Coren** now questions if "the pendulum has swung too far." The very success of redevelopment programs has made other interests want to share in their power.

Project area committees attracted the attention of several witnesses. **Ken Emanuels** said that redevelopment agencies find it difficult to get the committees started without unfairly dominating them. He said that redevelopment opponents see public officials' involvement as "stacking the committee and, in a sense, it is." But if redevelopment officials do not start a project area committee, who will?

Scott Halper said that state law makes it clear that the city council, not the redevelopment agency, is responsible for notifying residents and business owners about their opportunity to form a project area committee. Halper complained that the notices about the Hollywood redevelopment project went to the Hollywood Chamber of Commerce, instead of to a more diverse and representative list of business owners.

Halper also decried the lack of notice to residents and business owners who face "de facto secrecy" because they do not know about redevelopment and eminent domain plans until it is too late. **Sally Cruver** agreed that redevelopment proposals only get limited public notice. Halper recommended that the Legislature require redevelopment agencies to mail notices of all pending decisions to tenants and community groups, not just to landowners. Further, each notice must identify redevelopment agencies' extraordinary powers, including eminent domain.

Sherry Passmore-Curtis explained that the state's conflict of interest standards are being applied differently in different local communities. Emanuels fretted over how the Legislature might respond to the Fair Political Practices Commission's 1986 Rotman decision. "It's a Catch-22 problem," he said, drawing agreement from **Senator Green.** But, Halper advised, the solution is not to diminish the power of PACs just to get around the Rotman rule.

Cruver contended that redevelopment causes people to lose their freedom to vote on key decisions. One remedy is AB 1865 (Hauser, 1989), according to **Kim Savage.** Assemblyman Hauser's bill permits local voters to conduct initiatives and referenda on existing redevelopment projects as long as the elections would not affect outstanding bonded debts.

Reporting requirements. State officials who track redevelopment activities under a statutory mandate reported that many different users ask for the information that they collect. Both **Wayne Beck** and **Margaret Bell** agreed that the Legislature should make the current statute permanent, preventing the 1991 sunset clause from taking effect. But **David Diaz** wanted redevelopment agencies to report more information to state departments and other local governments.

Bell noted that her Department will improve the quality of the housing data it collects with internal, administrative adjustments. Statutory changes are not needed, a position that **Ken Emanuels** agreed to. Beck and Bell concurred that most redevelopment agencies are quite cooperative in responding to the state's requirements for filing data. However, both state officials recommended strengthening the penalties for those agencies which do not comply with the statute's requirements.

Special legislation for special projects. Besides the list of bills in the background staff report that affect special projects, **Dan Rabovsky** mentioned SB 1433 (Presley, 1988) which removed the Palm Springs Convention Center from the local property tax roll. That reduction also diminished the flow of property tax increment revenues.

With respect to the existing but obsolete statute on disaster related redevelopment projects, **Amanda Susskind** recommended that the Legislature revise this law. Responding to each natural disaster with special redevelopment bills is not a rational way to make state policy. Political pressures and emotional considerations can cloud policy makers' judgment.

Eminent domain. AB 160 (Mountjoy, 1989) would restrict redevelopment agencies' eminent domain powers. Although **Senator Bergeson** had told the witnesses that this issue was more properly before the Assembly Housing and Community Development Committee, several witnesses addressed the topic. **Emma Fishbeck** called the Assembly Committee's delay of its hearing on AB 160 a "hardship" to Southern California residents who now must travel to Sacramento in January to present their views.

Fishbeck favored limiting redevelopment agencies' eminent domain powers, as did **Chris Norby** and **Samuel Schiffer.** Eminent domain is a redevelopment agency's most extraordinary power, declared **Scott Halper. Juanita Tate** wanted the Legislature to make redevelopment officials' use of eminent domain contingent on the provision of replacement housing. **Frank Wong's** concerns about eminent domain were focused on the Century Freeway project, El Segundo's light rail project, and noise abatement zones around the Los Angeles International Airport, not about redevelopment agencies.

Other issues. Besides the issues raised in the staff's background paper, witnesses also talked to the senators about other redevelopment topics. The issue of inter-city competition for sales tax revenues came up in the comments of **Sherry Passmore-Curtis, Chris Norby,** and **Sandra Genis.** Because of the aggressive tactics of Cerritos, Norby called it the "Darth Vader of cities" and wanted the Legislature to explore the opportunities for cities to share their sales tax revenues. While Genis said that she recognized the problems caused by this competition between cities, she was reluctant to see the Legislature change current law and intrude into home rule powers.

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FINDING THE LEGISLATIVE AGENDA FOR THE 1990s

APPENDIX A

WRITTEN MATERIAL PRESENTED TO THE COMMITTEE

Senator Marian Bergeson, Chairman

Peter Schaafsma and Daniel Rabofsky
Wayne Beck
Margaret Bell
Ken Emanuels
Chris Papesh
Amanda Susskind and Diane Shamhart
Maxene Johnston
Sherry Passmore-Curtis
Emma Fishbeck
Hon. Chris Norby
Hon. Sandra Genis
Samuel Schiffer
Frank Wong
Sally Cruver

James R. Andruss
Sarah E. Foster
Ben Gilmore
James O. Hamilton
Norton Halper
Brenda Hendricks
Lorin Lovejoy
Frank and Juanita Ramirez
John J. Tuite
Hon. Susan Golding

OPENING STATEMENT BY SENATOR MARIAN BERGESON
"REDEVELOPING CALIFORNIA" INTERIM HEARING
THURSDAY, DECEMBER 7, 1989 --- LOS ANGELES

GOOD MORNING AND WELCOME TO THE SENATE LOCAL GOVERNMENT COMMITTEE'S HEARING CALLED "REDEVELOPING CALIFORNIA." I AM SENATOR MARIAN BERGESON, COMMITTEE CHAIRMAN. WITH ME THIS MORNING IS SENATOR CECIL GREEN FROM NORWALK.

IT HAS BEEN 7 YEARS SINCE THE COMMITTEE'S LAST OVERSIGHT HEARING ON REDEVELOPMENT ISSUES. THAT 1982 HEARING FOCUSED THE LEGISLATURE'S ATTENTION ON REDEVELOPMENT PROBLEMS AND LED TO THE REFORM BILLS OF THE MID-1980s. TODAY'S SESSION ALLOWS US TO EXAMINE HOW STATE LAWS AND COURT CASES HAVE CHANGED PRACTICES SINCE THEN.

FURTHER, OUR HEARING LETS US ANTICIPATE THE BILLS THAT WILL COME BEFORE THE COMMITTEE DURING THE NEXT SEVERAL YEARS. THE SUBTITLE OF THE HEARING IS ACCURATE. WE ARE TRYING TO FIND THE "LEGISLATIVE AGENDA FOR THE 1990s."

EVERY YEAR OUR COMMITTEE HEARS NEARLY A DOZEN BILLS AFFECTING REDEVELOPMENT TOPICS. WE UNDERSTAND EACH OF THE INDIVIDUAL BILLS THAT WE WORK ON, BUT WE NEED TO RE-EXAMINE THE CONTEXT IN WHICH THESE BILLS OPERATE. WE RECOGNIZE EACH **TREE**, BUT IT'S TIME TO REMEMBER WHAT THE **FOREST** LOOKS LIKE.

LET ME ALSO EXPLAIN WHAT THIS HEARING IS NOT. THIS IS NOT AN INVESTIGATIVE HEARING IN WHICH LEGISLATORS ARE TRYING TO FIND FAULT WITH A PARTICULAR REDEVELOPMENT PROJECT OR A SPECIFIC AGENCY. WHILE I HOPE THAT OUR WITNESSES WILL GIVE US ILLUSTRATIONS FROM THEIR OWN EXPERIENCE, WE AREN'T HERE TO PUT REDEVELOPMENT ON TRIAL.

THIS IS NOT A HEARING ON HOW REDEVELOPMENT AGENCIES USE EMINENT DOMAIN. THAT SUBJECT IS STILL PROPERLY BEFORE THE ASSEMBLY HOUSING COMMITTEE IN THE FORM OF A.B. 160, ASSEMBLYMAN MOUNTJOY'S BILL.

OUR WORK TODAY IS MEANT TO BE A BROAD OVERSIGHT HEARING. OUR STAFF HAS GIVEN US A BACKGROUND PAPER THAT DESCRIBES SOME OF THE REDEVELOPMENT ISSUES THAT CONCERN CITIZENS AND LOCAL OFFICIALS. THE PAPER SUGGESTS SPECIFIC POLICY QUESTIONS THAT MY COLLEAGUES MAY WISH TO RAISE WITH OUR WITNESSES.

AFTER TODAY'S HEARING, I EXPECT THAT MY FELLOW SENATORS AND I WILL BE MUCH BETTER PREPARED TO WORK ON REDEVELOPMENT BILLS THAT MAY COME BEFORE OUR COMMITTEE IN THE FUTURE. THIS IS GOING TO BE A REAL EDUCATION FOR US!

State Fiscal Issues Concerning Redevelopment

Testimony by Peter Schaafsma and Daniel Rabovsky

Legislative Analyst's Office

to the

Senate Committee on Local Government

Los Angeles, California

December 7, 1989

Senator Bergeson and members, thank you for inviting us to participate in your hearing today on redevelopment issues.

As noted in your consultant's excellent briefing paper, redevelopment has changed the way California looks. It has been instrumental in creating low-income housing, producing jobs and making many portions of the state more attractive places to live and work. It is in fact a key tool for local economic development.

Your consultant's paper presents a host of substantive policy questions that should be considered in reviewing the need for reforms in the redevelopment area. From our perspective, you should also consider whether potential redevelopment reforms need to be evaluated within the broader policy context of economic development and growth management.

In *The 1989-90 Budget: Perspectives and Issues* (page 97), we discussed the serious problems California is experiencing in accommodating its population growth. These problems have resulted, in part, because the existing structure of government does not promote cooperation between the governmental bodies in fully mitigating the regional impacts of growth. A variety of local government agencies, including redevelopment agencies, are involved in promoting business expansions, job growth, housing and the construction and renovation of buildings and facilities. In pursuing their own economic development objectives, these agencies may be more motivated by local concerns rather than by regional or statewide considerations of the impacts of growth and development. In addition, the state has expanded its own role in promoting economic development in recent years, through its housing and job training programs and through funding for business development and infrastructure assistance programs. The committee may wish to consider whether better coordination at all levels of government would improve the efficiency of our efforts to promote development and accommodate growth.

Our remarks today focus on the nature of the state's interest in redevelopment programs, and to some extent these comments may be applicable to economic development programs generally. Specifically, we will review our work over the last year regarding the fiscal impact of

redevelopment on state government and policy concerns related to that impact. Generally, we've found that the state does in fact finance a portion of the cost of redevelopment projects, and this raises the question of whether all of the local uses of the funds are consistent with the state's priorities for economic development. It also raises the question of whether the state should play a more active role in guiding the process of redevelopment, due to the stake it has in these investments, or, alternatively, reduce its financial participation in redevelopment.

The Fiscal Scope of Redevelopment

As Mr. Detwiler points out in his briefing paper, the scale of redevelopment activities in California is very large and has been growing rapidly. Looking at some fiscal measures of this activity during the 5-year period from 1982-83 through 1987-88, shows, for example, that:

- Spending by redevelopment agencies was almost $2.5 billion in 1987-88 and had grown by 18 percent annually;
- The outstanding long-term debt of redevelopment agencies grew from $2.6 billion to $7.9 billion, an annual growth rate of 25 percent; and
- Tax increment revenue grew by 20 percent annually, from $324 million to $807 million.

The rapid growth in tax increment revenue, which is the property tax revenue from growth in assessed value that is diverted to redevelopment agencies, means that redevelopment has become a significant factor in local government finance on a statewide basis. In 1987-88, the $807 million of tax increment revenue represented 6.4 percent of statewide property tax revenue. Since total property tax revenue has been growing only half as fast as tax increment revenue, a larger proportion of local property tax revenue will be diverted to redevelopment agencies over time. If recent growth rates continue, for example, tax increment revenue will account for 10 percent of total property tax revenues by 1992-93.

The State Cost of Redevelopment

The state is a silent partner in financing redevelopment activities through the school apportionment program. This program provides subventions to local school districts and community college districts that make up the difference between local revenues and the amount needed to provide a minimum level of funding per student. Thus, when redevelopment agencies divert property tax revenues from school districts and community college districts, the state generally replaces the diverted revenue.

Amount at Stake. The amount of revenue diverted from schools probably is about $400 million now and growing at about the same rate as tax increment revenues. The "net" cost to the state, however, is something less than the full $400 million of diverted property tax revenue. This is because some of these property tax revenues, as well as some sales tax and income tax revenues collected by the state, would not have been generated but for the conversion of blighted areas into

Under either Test 1 or Test 2 the net state cost of redevelopment has a real effect; under Test 1 it reduces education funding and under Test 2 it reduces funding for other programs. The individual school district in which a redevelopment project is located, however, is essentially held harmless by the state apportionment program under either test. It is categorical education funding on a statewide basis that feels the pinch under Test 1 and noneducation programs that receive reduced funding under Test 2. Thus school districts generally don't have a significant stake in the diversion of tax increment revenues and therefore have no incentive to represent the state's fiscal interest in redevelopment projects.

Special Supplemental Subventions. The state also provides a total of more than $40 million annually from the General Fund directly to redevelopment agencies as special supplemental subventions. These subventions were instituted in 1984 in order to partially offset the elimination of state subventions for the business inventory exemption.

General State Interest in the Use of Property Tax Revenues. Even without this direct fiscal linkage through education funding and the special supplemental subventions, the state would retain a strong interest in the use of redevelopment funds. As the members of this committee know, since the adoption of Proposition 13 what already was a fuzzy line between state and local finance has virtually disappeared, and the state has become a major participant in funding local government. Consequently, from the Legislature's perspective, the use of property tax money to fund redevelopment activities must be weighed against alternative uses of this money by local governments that would reduce the need for state subventions or could augment local programs that achieve statewide priorities.

Recent Changes in Redevelopment Funding

Pass-through Agreements. As a result of legislation in 1984, pass-through agreements now are becoming common. These agreements provide for redevelopment agencies to share (pass-through) a portion of their tax increment revenues to other local taxing entities to offset "financial burden or detriment" imposed by new redevelopment projects on those entities. Usually these agreements provide for revenue sharing with the county or special districts, but the terms vary widely and only affect recent projects. The amount of tax increment revenue actually passed through to other entities is small at present -- only $55 million in 1987-88 according to the State Controller's Office, but will grow rapidly as the newer project areas develop. In addition, many financial arrangements between redevelopment agencies and other entities are not in the form of pass-through agreements, and therefore are not included in the Controller's data. For example, redevelopment agencies will agree to use a portion of their tax increment revenues to build facilities for a local school district.

Counties, especially, are becoming increasingly successful in negotiating for a share of tax increment revenues. Pass through's and other forms of sharing agreements do appear to be addressing many of the concerns of counties for the new project areas, but the interests of the

economically productive areas due to redevelopment. Nevertheless, there is a net state cost because:

- Generally, some ongoing growth in assessed value had been taking place and would have continued even in the absence of redevelopment;
- Redevelopment areas sometimes are established to "capture" the anticipated assessed value growth from a major new development or ownership change that would have occurred without any redevelopment activity;
- Some redevelopment projects merely shift the location of new development to a particular community without any net increase in regional economic growth; and
- Some redevelopment spending finances the construction of public amenities and services, such as libraries and museums, rather than stimulating economic growth through the elimination of blight.

The Effect of Proposition 98. Proposition 98, adopted by the voters in November 1988, establishes a minimum required level of state funding for schools and community colleges. This required state funding level is the higher of the amounts determined under the following two tests:

Test 1 Roughly 40 percent of state General Fund revenues; or

Test 2 The amount needed to maintain the prior year's amount of combined state and local funding per pupil adjusted for inflation.

Under Test 1, which is the controlling formula in the current year, diversion of tax increment revenue from schools doesn't change total state school funding, because the funding requirement is computed as a fixed percentage of state revenues. The reduction in local school revenue, however, does require the state to shift funds to the school apportionment program from other education programs in order to make up the local revenue loss. As a result, under Test 1 redevelopment reduces the amount of state funding available for education programs that are outside the basic school apportionment program, such as class-size reduction or special education.

Our fiscal projections indicate that Test 2 is likely to be the controlling formula in the near future. Under Test 2, diversion of additional tax increment revenue from schools requires a net increase in state education funding to maintain combined state/local funding levels. Thus, under Test 2, redevelopment reduces the amount of state money available for all of the programs other than schools and community colleges.

counties do not necessarily coincide with those of the state. The state is not eligible for any direct pass-through to offset its school costs. Although school districts are eligible to receive direct pass-throughs, they generally avoid them (in favor of some type of indirect assistance) in order to maintain their full amount of state funding. Consequently, the mechanisms currently in place do not address adverse fiscal impacts of redevelopment projects on the state.

Housing. Redevelopment agencies now are one of the major funding sources for housing programs due to the general requirement that 20 percent of their tax increment revenue must be set aside for low- and moderate-income housing (although this requirement may be deferred or waived under specific circumstances). The State Controller's data indicates that redevelopment agencies set aside $43 million under this requirement in 1987-88. Housing is the primary area thus far in which the Legislature has chosen to impose a specific statewide priority on the use of redevelopment agencies' funds.

Policy Concerns

Efficiency. Redevelopment agencies often divert more tax increment revenue than the amount necessary solely to eliminate blight. It is clear, for example, that much of the new construction in redeveloped areas such as the financial district of Los Angeles and downtown Sacramento will occur without any further subsidy, but the diversion of tax increment revenue generated by that new construction continues. This reflects a desire on the part of these cities to use redevelopment to go beyond the basic elimination of blight in order to achieve their "vision" of their community.

Competition for Businesses. We have found situations in which cities are using their redevelopment agency's funds (and other revenues such as sales tax) for subsidies to influence the location of businesses that serve a regional market but will generate significant local revenues. Auto dealers and warehouse-type retailers such as Price Club are typical beneficiaries of these subsidies because of the large amounts of local sales tax revenue that they generate. We doubt that these subsidies provide any net economic benefit to the state because they merely change the location of businesses within a region, sometimes to the detriment of neighboring communities.

Similarly, it seems to us, there comes a point when subsidizing additional hotels and convention centers ceases to engender significant economic growth on a statewide basis, and instead turns into counterproductive competition among communities for existing convention business.

Public Facilities. As private development takes off in successful redevelopment areas, the tax increment revenue that is generated becomes an attractive source of funding for local public facilities that traditionally would be funded by regular tax revenues or fees. Los Angeles and Sacramento, for example, are using redevelopment funds to help finance libraries and museums. While these are worthy projects, this practice raises a question of priorities. Should revenue continue to be

diverted from counties and schools in order to provide civic amenities? A related question involves infrastructure finance. When is it appropriate to use tax increment revenue rather than regular local revenues or fees to construct street improvements, sewer lines and other types of infrastructure improvements?

Legislative Oversight of Local Finance. The recent proliferation of pass-through and similar revenue sharing agreements makes legislative oversight of local fiscal affairs much more difficult and complex. There is no mechanism to inform the Legislature of the specifics of these individual agreements, including which entities will receive benefits and when. Also, these agreements can be complex and they often provide for changing payments over time. Our experience last summer in determining the fiscal effect of Senator Presley's SB 1433 provides an illustration of these difficulties. That legislation, in effect, takes some of the Palm Springs Convention Center property (which is in a redevelopment project area) off of the property tax rolls. Based on information about the current allocation of property taxes on these parcels, we estimated that the revenue loss to Riverside County would be minimal. We recently learned, however, that a preexisting pass-through agreement would have given the county an increasing share of the property tax revenue from these parcels in the future, so that the fiscal effect on the county that we identified for the Legislature was understated. It appears that sharing agreements must be incorporated into the Legislature's picture of local finance in the future.

Governance. The state has a major fiscal stake in the financing of redevelopment projects, but does not have any seat at the table when decisions are made on specific projects. In addition, as your briefing paper points out, no state agency currently enforces the general redevelopment policies that the Legislature has enacted, such as the prohibition of new "bare land" projects. This situation inevitably means that when statewide priorities conflict with local priorities in the expenditure of redevelopment funds, it is the local priorities that are going to receive the greater recognition.

Summary

As is characteristic of many issues facing the Legislature these days, redevelopment reform raises the general question of state versus local control. In past years, the Legislature has left redevelopment decisions up to local officials under the presumption that they were in the best position to identify blight in their communities and find the most appropriate solutions. However, the context in which the tool of redevelopment is made available has changed dramatically, and redevelopment is being used to address problems that go beyond what most would consider to be blight in the traditional sense. For example, one proposal would direct redevelopment resources at the problem of street gangs. While we do not downplay the seriousness of gang problems, we do believe they lie outside the intended scope of redevelopment projects.

There are many problems that decisionmakers face today, and the normal budget process is the best place to resolve the competition for funds that these problems present. We do not believe that maintaining

local control over redevelopment, if the Legislature determines that is in the state's best interest, requires continued local access to the state's treasury without legislative oversight and prorogations.

TESTIMONY OF
WAYNE BECK

GRAY DAVIS

Controller of the State of California

December 7, 1989

Honorable Marian Bergeson
Chairperson
Senate Committee on Local Government

Madam Chairman, members of the Committee, honored guests, good morning.

I would like to take this opportunity to thank you for asking the Controller's Office to participate in today's hearing. I hope the information we have prepared will prove useful to the committee as it examines the Redevelopment process.

Most of the issues I would like to address have been touched upon by Mr. Detwiler in the Background Staff Report for the Interim Hearing. I will therefore follow the outline of that report.

Urbanization and Blight - page 15-19

Although not specifically required to be published by the Health and Safety Code, the Controller's Office felt the information regarding developed vs. vacant land would be of great interest and, therefore required the redevelopment agencies to include this information in the reporting process. We did discover quite a bit of confusion in the first couple years of the reporting process, in that our description of "vacant" apparently was somewhat vague. Additionally, we have discovered that this

information was usually prepared by the planning department staff of the agency or city. This may have led to a further breakdown in communications as to the intent of the question. Several steps have been taken to help eliminate some of the confusion, and it is hoped that the information currently being collected will be of much greater use. The data reported by Mr. Detwiler is based on the Controller's 1987/88 publication. The review process for that year did include a great deal of double checking of this specific information, and we feel the data presented here is quite reliable.

Low and Moderate Income Housing Fund - page 21

The Controller's Office receives financial data regarding the Low and Moderate Income Housing Fund annually in its reports. Since the reports are designed in a financial statement presentation, we have attempted to follow Generally Accepted Accounting Principles as closely as possible. We have done this in an effort to provide the Legislature with the most timely and accurate fiscal information possible on redevelopment agencies. The Low and Moderate Income Housing Fund is often not specifically identified in the agency's financial audit, instead it is grouped with other Special Revenue Funds or the Capital Projects fund. This is an accepted accounting practice, so it at times makes reconciling the information the Controller receives with that of the Department of Housing and Community Development a little more difficult. It is also possible that some of the information being provided to HCD is being prepared by staff other than those preparing the Controller's report.

Another related item is that of utilizing a 20% set-aside of the proceeds of a long-term debt issuance to fully satisfy the project area's future 20% tax increment set aside requirements. Although we have no method that enables us to capture and identify specific instances of this happening, the question has been brought to our attention on several occasions. Our question would be whether the legislature would feel this to be an acceptable alternative, and if the legislature would want to see further documentation of these instances.

Setting Limits - page 24

As a partial answer to the questions raised in this section, the Controller's Office shows the following:

Several problems have been noted in gathering Tax Increment Limit information. This information, therefore, does not appear in our annual publication.

One problem, naturally, is the lack of any information at all. Additionally, some of the agencies are reporting a limit other than a fixed dollar amount, such as a ratio of "1.5 times the annual debt service requirements". No information is provided in our data base in this instance. We do, however, maintain the fixed dollar amounts reported to us. Since the law is not specific as to the nature of the limit, the Controller's Office has been unable to compile meaningful data.

The following is a summary of 584 active project areas reporting for the 1987/88 year.

	Formed pre-1977	Formed post-1977	Totals
Number showing T.I. limit	190	265	455
Number not reporting limit	56	73	129
Total number of Project Areas	246	338	584

This represents 77.2% of the pre-1977 and 78.4% of the post-1977 project areas reporting Tax Increment Limits.

The state-wide totals we do have for the last three years show:

Year	T I Limit
1985-86	$ 68,044,608,772
1986-87	85,972,533,680
1987-88	$126,615,352,950

Statement of Indebtedness (SOI) - Pages 25-27

The Controller's Office has observed that since the 1984/85 report year, the Statement of Indebtedness process has improved somewhat. In the first year of the current reporting process, we noted several counties that did not require agencies to file SOI's before releasing tax increments, one county that did not follow the prescribed method, and only a few counties that really reviewed the SOI's at all. Since then more attention has been given to the filing of the SOI's, although some variations still exist as to the content, form and review process used.

Pass-through Agreements - Pages 28-30

The Controller gathers this information from both the County Auditor and the agencies themselves. The reason is due to the nature of the agreements themselves. When making these agreements, the agency may ask the County Auditor to administer the agreement, while other agreements are administered by the agency itself. The

Controller attempts to reconcile these figures to avoid double reporting, but receives this information in summarized form only. In our review of the information reported, we have noted a few oddities, such as four cities receiving Section 33401 pass-through payments from city-formed agencies.

Reporting Requirements - page 38

Since the current reporting process has been in use, the Controller's Office has been able to provide numerous ad-hoc reports to many different user's. A partial list of user's would include the Senate Local Government Committee, the Assembly Office of Research, the Legislative Analyst's Office, several members of the Legislature and their staff, County Grand Juries, research consultants, and so forth. We have additionally supplied the Assembly Office of Research with a full magnetic tape copy of our data base, and are currently in the process of preparing the same for the California State University San Bernardino School of Business Administration for their use in research projects.

Our experience with receiving audited financial statements with the required compliance audit has been disappointing. The history of the last three years is as follows:

Year	Active agencies	% Filed Audit	% Filed compliance opinion
85/86	263	84%	75%
86/87	280	86%	67%
87/88	296	91%	77%

As can be seen, many agencies do not comply with the filing requirements as set forth in the Health and Safety Code.

Should the committee determine this to be an important issue, they may want to consider making the compliance audit requirement

and the financial audit requirement subject to the $1,000 forfeiture as provided for in Government Code Section 53895 for late filing or failure to file.

Health and Safety Code Section 33080 requires a "report" to be filed annually. The "report" is defined as the State Controllers financial statement, the Housing and Community Development report on Low and Moderate Income Housing Fund usage, and the independent financial audit, which must include a compliance audit opinion. The Government Code calls for the $1,000 forfeiture for failure to file the "report" required by Health and Safety Code Section 33080. Thus far only one agency has been fined, and that only for failure to file the Controllers financial statement.

Thank you again for allowing us this opportunity to share some thoughts with the committee. I will now address any questions you might have.

STATE OF CALIFORNIA GEORGE DEUKMEJIAN, Governor

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TESTIMONY - SENATE LOCAL GOVERNMENT COMMITTEE INTERIM HEARING ON REDEVELOPING CALIFORNIA - December 7, 1989

Senator Bergeson and members of the committee, I am Margaret Bell from the Department of Housing and Community Development (HCD). Diana Alonzo, the Legislative Coordinator for our Department, is also present. Thank you for inviting us to appear here today. As you know, we are required to prepare a report to the Legislature each year on the housing activities of redevelopment agencies and the status and use of their Low and Moderate Income Housing Funds, which we call "L&M Funds" throughout this presentation. We have provided for each Committee member a copy of our most recent report, covering Fiscal Year 1987-88, and a copy of the 1988-89 reporting form.

Our reports are based on responses from local governments to questions on a survey form prepared by HCD and distributed to redevelopment agencies by the State Controller, along with the annual reporting forms from that office. When the forms are completed, they are returned to the Controller and HCD's forms are forwarded to the Department by the Controller. The number of agencies filing reports with HCD has steadily increased.

The reporting process was initially worked out, and HCD's original report forms were designed, pursuant to recommendations from a Task Force comprised of representatives from HCD, the Controller's office, and the California Redevelopment Agencies Association. Since that time, the survey form has been revised each year to respond to new reporting mandates or concerns. In fact, we are currently rewriting the computer program to provide more reporting flexibility.

In addition to a change made to avoid double counting of accounts receivable reported by local agencies, the following changes were made in our reporting forms covering Fiscal Year 1988-89:

(1) Agencies will have an opportunity to identify L&M Funds held in reserve for specific purposes and to report what those purposes are. This change was made because we became aware that an agency had used an "auditor's adjustment" to decrease the amount of money reported in the L&M Fund, indicating the money was held in reserve and should not be a part of the amount listed as "Funds Available" in HCD's report. In reality the money still belonged in the L&M Fund, but HCD's report form provided no way to show it as money held in reserve.

(2) Agencies will be asked to identify the amount of equity reported in the L&M Fund which represents the value of land

held for the development of low- and moderate-income housing. It has become important to track this information, since legislation enacted as part of the Governor's 1988 Housing Package authorized a credit against L&M Funds for any loss of income due to the below-market sale or lease, or the grant or donation of land, to a housing provider if at least half the units developed on the land are for low-income households.

(3) Agencies will be asked to report L&M Fund revenues generated in each project area, but expenditures will be reported to us on an agency-wide basis. This change was made because agencies reported to us that most agencies do not maintain a separate L&M account for each project. Therefore, to report expenditures to us by project area required an arbitrary allocation of a portion of each expenditure to each project area.

When we first began issuing annual reports, we had hoped to develop a cumulative record documenting trends in redevelopment housing activities. We soon realized, however, that there is no reliable historical record on which we could build. Past reports have reflected locally generated statistics on housing activities which were not always well documented through consistent record keeping procedures. As State and local agencies become more sophisticated in compiling data bases, we believe the accuracy of housing activity reports will improve and become a valuable tool for

legislative assessment of redevelopment and housing policies.

In many cases, the financial information on L&M Funds is provided by the local finance office and the housing activity information is provided by the local planning department. We believe our reports have encouraged greater emphasis on record keeping and accountability, as well as greater coordination of housing activities at the local level.

Most of the problems we have encountered in the reporting process can be attributed to one or more of the following:

1. Since 1977, Health and Safety Code Section 33334.3 has required that L&M Funds be kept in a separate account until expended for authorized purposes. In 1985, when HCD first began compiling information for the Department's report, most agencies indicated there was no separate account labeled "Low and Moderate Income Housing Fund." Agencies kept the five accounts for each project area as required to meet the State Controller's reporting procedures. They had an indication of how much in those accounts should be allocated to the L&M Fund. It has required some adjustment for local fiscal and auditing officials to keep books in a manner that facilitates a response to HCD's reporting mandate enacted in 1984.

2. Until it became apparent that the Department was going

to seek explanations for discrepancies between fiscal year ending balances reported as of June 30 and beginning balances reported on July 1 of the next fiscal year, these balances very often did not match. It is still not unusual to see these balances brought into consistency through "auditors' adjustments."

3. Not all agencies keep their books in the same way. Some agencies include accounts receivable as part of the equity in the L&M Fund and others do not. Some include the value of land held for housing development in the balances they report. When the Department's report forms did not solicit that information, the amount of money reported to be available in those funds may have been overstated.

4. There may be some double counting of units assisted. It is generally understood that housing units newly constructed or rehabilitated should be counted only in the report covering the fiscal year in which the work was completed. HCD will revise future survey forms to clarify and emphasize that point.

5. It is difficult to ensure that accounting for the use of L&M Funds is not distorted through the transfer of money to other agencies or through the commingling of L&M money with other housing funds. For instance, the City of San Jose

reported an expenditure of over $44 million and explained that it was an "operating transfer out" to the City's new Housing Department which will administer redevelopment assisted housing programs. HCD was unable to reconcile this information with the agency's redevelopment fiscal transactions report prepared for the State Controller. Staff for the San Jose Housing Department explained that the report to HCD merely confirms an agreement the City has to use the money for the permitted activities and that these activities will be reported to HCD as the housing projects are completed. However, because of the San Jose report, the statewide "Funds Available" figure does not include the $44 million reported as an expenditure, even though we believe it continues to be available for low and moderate income housing assistance.

In June of next year we will revise our report forms once more to solicit information required in AB 4235, Chapter 1604, Statutes of 1988, and related to the occupancy of units by households for which they were developed or reserved and the household incomes of those occupants. We expect to consult representatives from redevelopment agencies in developing the new survey forms.

Our goal is to provide to the Legislature each year, by April 1, an accurate and complete factual report on redevelopment housing activities and L&M Fund transactions. The report has been in great demand by local planning departments, redevelopment agencies,

legislative consultants, housing advocates, and the general public. It presents housing-related information in a form we hope is easily understood by the reader, and indicates that redevelopment L&M Funds provide one of the largest pools of financial assistance available for affordable housing projects. These funds usually leverage other housing resources through public/private partnership agreements.

We find the redevelopment report to be extremely useful in the housing element review process. As you probably know, HCD is required to review local draft housing elements and comment on them with respect to their compliance with State housing element law contained in Article 10.6 of the Government Code. Housing elements are expected to analyze local resources available for housing assistance, including sites suitable for redevelopment and the financial resources of the redevelopment agency.

In earlier years, housing elements rarely discussed local redevelopment activities and local planning officials viewed such activities as independent of other local planning and land use operations. We believe our redevelopment reports and housing element review comments have increased awareness of the role redevelopment plays in a locality's overall planning and development strategy.

Based on the telephone calls we receive from redevelopment agencies

as they prepare to complete our reporting forms, I expect to see L&M Fund obligations in some older project areas offset by the value of lands being set aside and held for housing in order to avoid creating an indebtedness in the account. Redevelopment agencies seem to be increasingly eager to provide accurate information to us and have been cooperative in identifying areas for improving the reporting process.

We believe the information we receive from local agencies is becoming more reliable and that local planning and redevelopment officials are more appreciative of the potential for redevelopment to assist them in addressing housing needs.

We are responding to an increased number of calls for information and technical assistance related to redevelopment-assisted housing programs. Redevelopment agencies involved in the housing development process encounter the same public opposition to affordable housing that other developers encounter. Redevelopment officials, at a conference on redevelopment and affordable housing last November, expressed the view that it is in the best interest of redevelopment agencies to pursue affordable housing projects in order to secure public approval for their economic development activities and to serve the needs of workers they hope to attract to their areas.

We hope the information we have provided is helpful to you, and will try to answer any questions you may have. Thank you.

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PLEASE CONTACT MARGARET
BELL AT (916)323-3180.

REDEVELOPMENT AGENCIES IN CALIFORNIA:

The Effect of Their Activities on Housing

Fiscal Year 1987-88

April 1989

Community Redevelopment Agencies Association

1400 K Street, Suite 204, Sacramento, California 95814 • Telephone (916) 448-8760

Testimony before the Senate Committee on Local Government

Thursday December 7, 1989 by: Ken Emanuels of the Community Redevelopment Agencies Association

Hearing Title: "Redeveloping California: Finding the Legislative Agenda for the 1990's"

Redevelopment is the primary tool of both State and Local Government to eliminate slums and blighting conditions found in numerous local communities in the cities and counties of the State. It is a well established state policy that declares the existence of blighting areas constitutes a serious and growing menace which is condemned as injurious and inimical to the public health, safety, and welfare of the people of the communities in which they exist and the people of the state. The state has declared its policy to be to protect and promote the sound development and redevelopment of blighted areas and the general welfare of the inhabitants of the communities in which they exist by remedying injurious conditions through the employment of <u>all appropriate means</u>. Further the state has declared that whenever the redevelopment of blighted areas cannot be accomplished by private enterprise alone, without public participation and assistance, that it is in the public interest to employ the power of eminent domain, to advance and expend public funds for these purposes, and to provide a means by which blighted areas may be redeveloped. The legislature has further declared that a fundamental purpose of redevelopment is to expand the supply of low and moderate income housing, to expand employment opportunities for jobless, underemployed, and low income persons, and to provide an environment for the social, economic, and psychological growth and well being of all citizens.

Based on these legislative policy statements, and others of a similar and more detailed nature found in the community redevelopment law, redevelopment has existed and grown throughout the state over the past forty years. Redevelopment agencies have been very successful in accomplishing the purposes of state policy. Each year, redevelopment agencies are now consistently creating over

25,000 jobs, over 20 million square feet of new and rehabilitated commercial and industrial development and over 8,000 housing units. There is no other more powerful or more effective economic development tool operating within the state of California. The amount of money which the state has enabled redevelopment agencies to secure in order to carry out its mission of the elimination of slums and blight, has been leveraged multiple times in order to generate a much more all encompassing and successful program.

The success of redevelopment can be categorized in five major areas:

1) Job creation During the 1987-88 fiscal year, 29,528 jobs were created in redevelopment project areas. These jobs were created in some of the worst areas of communities within the state. These jobs are often located in areas where nearby blighted neighborhoods provide many low income residents who can find permanent work and opportunities for advancement. The creation of jobs has a ripple effect throughout the community in which they are located. As workers receive their pay checks they buy homes and cars, furniture, food and other items they generate increased employment throughout the community, well beyond a project area boundary.

2) Commercial and Industrial Development. Redevelopment activities have traditionally focused on deteriorated or central city areas. Whether it is a city as large as San Diego or as small as Redding, the primary focus is on turning around the downtown areas and strip commercial centers which suffer from dilapidated buildings, odd sized parcels and buildings which are too small or too large to serve modern shopping needs, and competition against development occurring in outlying areas. The marketing of goods and services has changed dramatically over the past two decades, and redevelopment is a primary tool for adjusting the land use patterns and retail and office uses within the urban core in order to accommodate the changing needs and expectations of a very mobile society. Over the past three, years over 80 million square feet of commercial and industrial buildings have been constructed or rehabilitated within redevelopment project areas. Some have argued that these buildings would have been built somewhere within the local community, or nearby regardless of the activities of redevelopment. This argument may have merit on its face, however, if these commercial and industrial buildings had been built outside of redevelopment project areas, such construction would have lead to further deterioration and neglect within the core areas of the city or county in which they are located. The very fact that this much new construction and rehabilitation has taken place within redevelopment project areas is a mark of

accomplishment for local agencies. By targeting this development into redevelopment project areas, the public gains the benefit of reducing or eliminating blighting influences receiving the increase in goods and services, employment and tax revenues produced by the business located in the project area. Isn't it more desirable to see these businesses build and grow in already developed communities rather than building in areas which tend to increase urban sprawl?

3) Affordable Housing. Redevelopment is one of the major forces in the production of affordable housing in the State. The funding which supports affordable housing through redevelopment is one of the largest, if not the largest source of public funds in California to assist people of low and moderate income to find decent, safe, and affordable homes. Since the enactment of the twenty percent set aside legislation in 1977, the amount of money flowing into the redevelopment housing funds has increased significantly. As it continues to grow, the scope of redevelopment housing activities is also growing. Redevelopment agencies have also been very creative and aggressive in leveraging the housing funds with other funding sources, such as assessment districts, mortgage revenue bonds, low income housing tax credits and similar sources in order to build as many units as possible. For many agencies, building housing is a new phenomena, and there is a learning curve which is increasing redevelopment official's knowledge and experience in the production of housing. The next five to ten years will see a dramatic increase in the housing activities both within redevelopment project areas and within the communities in which they are located.

4) Blight Control and Elimination. Cities as diverse as Santa Ana, San Jose, Marysville, Inglewood, Garden Grove, Pomona, Riverside, and Sacramento have utilized redevelopment very effectively to address some of the most serious blighting conditions. Redevelopment Agencies tackle some of the most difficult social problems existing within our local communities. The deteriorated conditions in many communities lead to increases in criminal activity, juvenile delinquency, disturbances, disease, overcrowding and homelessness. It is the redevelopment agencies that are on the leading edge of dealing with the physical and social conditions resulting from deterioration within our society. Often it is the redevelopment agencies which are dealing with abandoned buildings, marginal businesses and neglected people. It takes enormous financial resources and community leadership and commitment to turn a deteriorated area around into a successful place in which to live and work. The redevelopment agencies in California can point to many outstanding examples of successful blight elimination and control.

5) Environmental Preservation. By building and rebuilding within the existing urbanized areas of cities, and reusing our existing land within redevelopment areas, we are maximizing the preservation of our prime agricultural land and the rural environment which surrounds urbanized areas. By redirecting our growth to infill existing areas, we preserve outlying areas from over development. Redevelopment can be an effective tool in assisting both state and local agencies in environmental policy decisions.

Why have redevelopment activities increased?

The federal government has substantially withdrawn its support for community development activities over the past ten years. Fortunately, California had an established and effective alternative under state and local control in which to replace the federal money and programs which were eliminated or curtailed. Concurrent with the federal curtailment, was the passage of Proposition 13 which created a serious constraint on state and local revenue sources. No longer could the local government meet its traditional capital improvement needs at the same time as maintain its operating service responsibilities with the funding limitations. The first thing to be jettisoned was a substantial amount of the capital funding at both the state and local level. However, the replacement or expansion of infrastructure needs did not slow down. If local officials were going to revitalize and rebuild their deteriorated areas, and provide new infrastructure which would adequately serve the increased traffic, water and sewer needs in order to accommodate new construction in the blighted urbanized areas, it was essential to find a new financial tool which would enable this rebuilding to take place. Without adequate maintenance, buildings deteriorate, homes deteriorate, streets deteriorate and the underlying fabric of society will suffer. As these problems continue to grow in the face of constrained revenue sources, local government officials have turned increasingly to redevelopment as a partial solution to stop the deterioration. Over half of the redevelopment agencies were established between 1972 and 1982. As understanding and knowledge about the nature of the redevelopment process has increased, and as educational programs and sophisticated consulting services have increased, the understanding of the redevelopment process by local officials in small and medium sized communities has been rapidly growing. As this awareness and understanding of the availability of the tools of redevelopment has increased, local governments have made increased use of the tool. The problems in these communities have been in existence for many years and each year of neglect accentuates and increases the scale and scope of the problems. Local government uses redevelopment to address these long-standing problem areas.

Since redevelopment project areas seldom include the entire boundaries of a city or a county, the redevelopment funding is not the sole answer to financing public infrastructure or public buildings. Cities and counties must utilize all available resources including assessment districts, Mello Roos districts, state subventions, development impact fees and other revenue producing sources in order to meet the high cost of infrastructure and maintenance. Redevelopment is a focused program which operates solely within project area boundaries.

There has been some criticism of redevelopment because fewer than 20 redevelopment project areas have been completed. This should not be a surprising statistic, since 2/3 of the redevelopment agencies have been in existence for less than 15 years. To reverse a deteriorated area and bring it back to success is a very long and costly process. Typically, a redevelopment agency will run thirty years before its termination date.

Is there too much vacant land within new project areas?

In 1983 CRA Association sponsored the Costa bill which restricted redevelopment to predominantly urbanized areas. Twenty percent of the project area can be undeveloped "bare land". This legislation has generally been successful. Three fourths of the project areas adopted since 1984 are in compliance with the 80% urbanized area requirement. The remaining 25% of the project areas with excessive vacant land are not necessarily out of compliance with the law. These projects were either created by special state legislation which provided an exemption to the 1984 law (such as AB 419 (Eaves) passed in 1989 dealing with Norton and George Air Force Bases) or the redevelopment agency made a finding allowed under the law that the vacant land is "a intregal part of an area developed for urban uses" (33320.1(b) (3) of Health & Safety Code).

Those few agencies which have been outright violations of state law are a great concern to CRA Association. CRA Association supports the inclusion of additional restrictions into the state law in order to prevent unwarranted "bare land" projects. The CRA Board of Directors has appointed a technical advisory committee to develop specific provisions for consideration by the legislature. Several alternative approaches, including those suggested by the local government committee staff, are being discussed and a recommended alternative to tighten the law will be ready early in the next legislative session.

Should additional reporting requirements be required?

It has been suggested that additional reporting requirements may be necessary in both the HCD report dealing with housing and in the statement of indebtedness which the agency files with county auditor/controller.

In regards to the HCD report, we believe that the reporting issues are primarily administrative in nature and that sufficient legislative authority exist for HCD to clarify their reports, clarify the definitions which they use in their reports and gather sufficient information in order to prepare adequate documents. The state controller has been quite successful in modifying their reporting forms in order to provide accurate data, and we believe HCD can do the same.

The statement of indebtedness for each project is very straight forward. It requires: 1) the date on which each loan, advance, or indebtedness was incurred or entered into; 2) The principal amount, term, purpose, and interest of each loan, advance, or indebtedness. 3) The outstanding balance and amount due or to be paid by the agency of each loan, advance, or indebtedness. This statement of indebtedness is filed annually with the county auditor/controller. In Merek vs. Napa Community Redevelopment Agency, decided by the California Supreme Court in October 1988 the court concluded that "The manifest legislative intent is that available tax increment revenues be furnished to redevelopment agencies so they have a reliable source of funds to pay all indebtedness incurred in the process of redevelopment." The court stated that the establishment of the special fund by the redevelopment agency implies that the agency ". . . will control the utilization of tax increment funds and militate against the notion of a process budgetarily controlled by county auditors." The court held that the auditors position in the case was based on " . . . false premise that under section 33675, the auditor acts as a kind of guardian of tax increment revenues to ensure that other local tax entities . . . receive their fair share." The court held: "It is the auditors function to see that the aggregate amount of tax increment revenues paid to the agency does not exceed the aggregate of its indebtedness. In other words, it is only when the agency's total indebtedness has been paid that tax increment revenues are to be paid to other taxing entities." It is the CRA position that additional restrictions or control by a county auditor over the decisions of the elected officials overseeing the redevelopment agency is inappropriate. Reporting requirements are already detailed and time consuming, subject to an annual financial audit and subject to a compliance audit. Section 33080.1 of the Health and Safety code requires the compliance audit. The

audit report must include an opinion regarding the agency's compliance with the laws regulations, and administrative requirements governing the activity of the agency. A copy of this audit must be filed annually with the state controller. We believe that this provides adequate protection for other taxing entities and there is no need for additional state legislation.,

Do pass through agreements alleviate fiscal detriment?

Under the fiscal review committee process established under the Health and Safety Code, the redevelopment agency must provide extensive documentation of its redevelopment project plans prior to adoption. The fiscal review committee can then prepare a detailed report regarding any financial detriment which occurs to any other taxing entity because of the creation of the project area. The practical result of this review, should a financial detriment be documented, is an agreement to pass through a certain amount of the property tax revenues to the other taxing entity. Since the mid-seventies, local governments have been negotiating pass-through agreements to off-set fiscal detriment. As the knowledge and sophistication of counties, school districts and special districts has increased regarding redevelopment there has been a corresponding increase in the number of negotiated pass-through agreements. CRA Association recently examined 159 pass-through agreements adopted between November 1984 and December 1988. In every instance, the agreement effectively eliminates any financial detriment to the taxing entity that would otherwise be adopted by the redevelopment plan. Therefore, the agreements entered into alleviate any perceived fiscal detriment. It is not uncommon for the county of other taxing entity to defer their receipt of tax increments in the first ten years of the project since those are the most difficult years for the project to generate funding to deal with the blighting conditions. However, once the redevelopment agency receives a designated amount of tax increments on either an annual or cumulative basis, or when a designated date is reached, the redevelopment agency passes through a portion or all of the "share" of that taxing entity until the taxes received by that entity equals the amount of deferral, plus interest. In this way, the taxing entity is "made whole". By negotiating this type of agreement the taxing entities not only receive their "share" of the taxes, but they also benefit from the increased property tax revenue generated by the activities undertaken by the redevelopment agency. These "make whole" provisions tend to lengthen the number of years which a redevelopment agency is in existence, since it must continue to operate until this additional obligation is repaid to the other taxing entity.

Another form of the "side sharing" agreement, provides for the construction of physical facilities for a school or county in lieu of receipt of property tax increments. Under the agreement funding is set aside into a trust fund administered by the redevelopment agency or by the other taxing entity, or both for the specific purpose of constructing capital facilities in lieu of cash payments for alleviating the fiscal detriment. This technique is particularly attractive to school districts since they do not have to report this assistance to the state and thereby, the school districts can gain more than 100% of the revenue they would otherwise receive. As counties and school districts have increased their knowledge, retained expert legal and consultant help they have been much more sophisticated in their negotiation of agreements with redevelopment agencies. Rather than being hurt by the establishment of a project area, these agencies can benefit from the new tax revenue which is generated through redevelopment activities.

What is the effect of redevelopment on school financing?

The legislative analyst projects that redevelopment agencies will receive a "subsidy" of $322 million in fiscal year 1988-89. This projection assumes that absolutely no growth in a project area is attributable to redevelopment. The legislative analyst acknowledges that she cannot determine what portion of the growth in project areas is attributable to other facts, and is, therefore, unable to provide any specific estimates of the state costs. Instead, the legislative analyst projections are based on hypothetical state cost savings. In forming this conclusion based on "hypothetical state cost savings" the legislative analyst has completely ignored even the possibility that over $5 billion of expenditures by redevelopment agencies in the last two years alone (including the development of projects which generate millions of dollars in sales tax revenue and thousands of jobs) has increased state revenues as a direct result of the establishment of redevelopment project areas. In the 1984 report by the California Debt Advisory Commission regarding the use of redevelopment and tax increment financing by cities and counties they concluded that "while it will never be possible to derive a specific figure which everyone will agree a conservative estimate that at lease half of the assessed value is attributable to the activities of redevelopment agencies." When the revenue that the state receives through sales and use tax income tax revenue and bank and corporation tax revenues which are a direct result of the investment of tax increment revenues into redevelopment project areas is taken into consideration, the state general fund actually benefits from redevelopment rather than redevelopment requiring a state general fund "subsidy". CRA would respectively disagree with staff conclusions that "no one disputes the existence

of a state general fund subsidy to redevelopment agencies". The CDAC report concluded that this is conservative to the extent that more than half of the incremental accessed value is attributable to redevelopment to the extent that revenue estimates do not reflect new construction in areas adjacent to redevelopment projects. . . ." Utilizing the same methodology used in the CDAC report in order to arrive at the positive cash flow we believe that the state would find that there is a continuing and increasing positive cash flow because of the activities of redevelopment. In other words, redevelopment is producing income to the state in excess of the projected $322 million "subsidy" to redevelopment agencies. Therefore, CRA would support legislation which would require the CDAC to prepare an update of the 1984 report every five years.

Conclusion

In conclusion, redevelopment has been enormously successful in fulfilling a long standing policy. Redevelopment is the most effective available tool to local government to rebuild those portions of a community that are suffering because of the lack of adequate capital investment over many years. The elected and appointed officials of our local governments are the trustees of billions of dollars of public assets. How the city councils and boards of supervisors oversee these assets has enormous impact upon the private investment in these communities. When adequate capital reinvestment does not occur within declining areas, that area will deteriorate at an increasing rate, with each succeeding governing board having less to turn over to its successor trustees. This option is the municipal equivalent of the "slum landlord" - a property owner living off the depreciation cash flow while their property deteriorates due to the "owner" using the cash for purposes other than capital replacement. The adage "Pay me now or pay me later" is certainly appropriate. Without redevelopment the local governments of California would be absolutely unable to finance the development and building within these declining areas in order to return these areas to productive, safe and attractive neighborhoods and business districts. The California Community Redevelopment Law has provided both the necessary legal means and financial means in order to provide a decent urban environment for our mutual citizens. The success of redevelopment has been the strong partnership between state and local government over the past four decades of investment in troubled neighborhoods. We would seek a continued close partnership in carrying out this vital state policy of community rebuilding.

County Administrative Office

RIVERSIDE COUNTY TESTIMONY

SENATE COMMITTEE ON LOCAL GOVERNMENT

OVERSIGHT HEARINGS

ON

REDEVELOPMENT ISSUES

THURSDAY, DECEMBER 7, 1989

Robert T. Andersen Administrative Center
4080 LEMON STREET • 12TH FLOOR • RIVERSIDE, CALIFORNIA 92501 • (714) 787-2544

Senator Bergeson and Members of the Senate Committee on Local Government, I am Christopher Papesh, the Finance Director of the Riverside County Administrative Office and I am here on behalf of the County of Riverside. Our County appreciates the opportunity to present testimony at this extremely important hearing on California's fiscal destiny. We are very concerned about the grave fiscal condition that our County has struggled with over the last few years as a result of an eroding tax base. Whereas our County continues to experience rapid growth in assessed value, the tax which proceeds to the County is not proportionate to the total growth in assessed value due to the impact of community redevelopment agencies. The demand for services, however, has far exceeded the increase in revenue. We commend the Legislature's interest in t"e general topic of property tax allocations and look forward to working with you to achieve much needed reforms designed to provide an equitable revenue base for financing local government services.

There are four major issues that I will address today: rapidly escalating costs for urban services, low property tax counties, community redevelopment agencies, and the shift of property taxes to no and low property tax cities from counties that is imposed by SB 612 and AB 1197.

Costs for Urban Local Government Services

Riverside County is the fastest growing large County in California. With a population exceeding 1,000,000 citizens and annual population growth in 1989 of 7.3% (compared to 1988), local governments must provide a wide range of local services. In particular, counties face very high operating and facilities costs for health and hospital and social services and Sheriff's patrol, criminal justice and corrections services.

By pointing to two examples, hospital and corrections programs, I hope to illustrate the rapid escalation in capital and service delivery costs.

The existing Riverside General Hospital facilities and campus contains many buildings and structures which are more than 50 or 80 years old; the principal hospital facilities will not withstand a moderate to major earthquake. In September 1989, the County of Riverside issued bonds to build a new 360 bed hospital: $200 million in principal amount. This is a general fund debt of the County; Riverside County will pay debt service over the next 30 years for this hospital.

A second example of high urban service costs is the Riverside County-Correction Program. Inmate population continues to rise due to among other things, rising County population. However, a corollary to population and urbanization is a "hardening" of the inmate types held in County Jail. Due to Court ordered inmate population limits, people charged with only misdemeanors are generally cited and released from Jail. This leaves only persons charged with serious offenses in custody. Management of career criminals - drug cases and serious offenders is more difficult and more expensive, due to the need for high security facilities and measures. In 1989, construction was completed on the Robert Presley Detention Center a ten story $45 million new Riverside Jail project. Still, the County faces three additional major Jail facilities - construction projects at Banning, Indio and the Southwest County area (Temecula region).

During the past five years Riverside County inmate populations and operating costs have sky-rocketed. Chart 1 lists the inmate average daily population for the period 1985 to 1989. Chart 2 is a graph of the Corrections operating costs, 1985-1989 and Chart 3 is a graph - projection of operating costs 1990-1995.

While other urban California counties face similar high demands for service, few approach the extremely high population growth pressures and the need for high levels of capital expenditures for new facilities within the revenue raising limits of Proposition 13 and the Gann Limit constraints. Riverside County voters realize and value quality local government services. They overwhelmingly approved the Gann Limit - Measure A election and the 1/2¢ sales tax measure for transportation.

Proposition 13 and the implementing statutes (AB 8) fail to consider the equity and justice of the existing distribution of property taxes before 1978 and the impact of rapid urbanization and population growth on local governments. Since 1978, Riverside County has added approximately 400,000 new residents and reached a population of 1.1 million who expect the full provision of urban local government services. Before 1978, if a California County faced rapid urbanization and rapidly growing requirements to provide mandated services such as indigent health care - hospitals and jails, the Board of Supervisors could raise the tax rate. However, Proposition 13 and AB 8 have frozen the Riverside County tax rate percentage at 27% - 26% of the total tax revenue collected in Riverside County - making the County a low property tax County.

Recommendation:

If the State does not reform the AB 8 distribution process, it should provide an annual revenue adjustment for increases in State mandated services.

Low Property Tax Counties

The initial bailout provided by the Legislature in 1978 was to mitigate the loss of property taxes caused by the voters passage of Proposition 13. SB 154 (1978) provided a formula for distributing property taxes that was based upon the taxing entities proportionate share taxes collected in the three prior fiscal years. The Riverside County Board of Supervisors decided to cut property taxes in the years preceeding passage of Proposition 13. Their responsiveness to local taxpayers calls for relief has severely disadvantaged Riverside county since the statewide taxpayers revolt. Our lowered property tax rate provided the basis for our allocation of State bailout dollars in 1978 and subsequently, with the passage of AB 8 in 1979 which placed Riverside County at a comparative disadvantage with other counties. One analysis indicated that the General Fund would be 14 million dollars ahead in today's dollars if taxes had not been lowered in the years preceeding Proposition 13.

Statewide, the average share of property taxes allocated to counties is 33%. Many large urban counties receive 35% or 45% of collected taxes. With an approximate 26% share of property taxes, Riverside County receives one of the lowest percentages of property taxes of the 58 counties in the State. This low property tax share impedes the County's ability to pay for essential local government services such as law enforcement, health care, and fire protection.

In 1988, the Legislature corrected the "no and low property tax city" AB 8 allocations at the expense of Riverside County, San Bernardino, San Diego and other "low property tax counties".

Recommendation:

1. The AB 8 formulas for allocating property taxes to counties should be amended to provide a minimum allocation of property taxes to each County. We would support the current Statewide average of 33% as an appropriate minimum allocation.

Community Redevelopment Agencies

California's Community Redevelopment Law has provided a boon to cities in Riverside County. The County is distinguished as having a higher proportion of its assessed value restricted by City redevelopment agencies than any other County. In 1980-81, the total allocation of property taxes to redevelopment agencies in our County equaled 2.91% of total taxes collected. This proportion increased to 11.44% in 1988-89.

Assessed value in redevelopment areas has increased at a rapid rate in Riverside County. Total assessed value in redevelopment areas full cash value increment has reached $5,845,177,342 in 1988-89. Property tax revenues (increments) received by redevelopment agencies within the County have grown from $4,050,590 in 1980-81 to $60,992,585 in 1989-90, which reflects growth of over 1406.00% (14 times) in that nine year period. Assuming a more moderate rate of growth in redevelopment agencies of 30% annually, we project that City redevelopment agencies will receive nearly $130 million annually by 1991-92 or 19% of the total property taxes collected.

In recent years, Riverside County has actively sought Cooperation Agreements with new City redevelopment projects; despite such pass-through agreements, the County continues to lose 50% to 100% of its normal tax share to most active redevelopment projects. As the redevelopment agencies share of property taxes increases, the pro rata share allocated to counties, cities, schools and special districts decreases. We estimate that Riverside County's share of property taxes will decline even further from its current low of 26% to 23% in 1991-92, due to the growth in redevelopment agency tax increment. School districts within the County have slid from 44.25% of total property taxes in 1980-81 to 40.35% in 1986-87; we project that by 1991-92, schools will receive only 35.78%, causing the State to contribute an even higher amount to schools.

Recommendation:

1. State redevelopment law should be modified to place a limit on tax increment financing that accrues to redevelopment agencies; or

2. The State should provide off-setting revenue to make counties whole.

No and Low Property Tax Cities

Compounding the problems described above for 16 counties is the Trial Court Funding Program effect of transferring up to 7% of property taxes from an option County to cities within the County having less than a 7% share. This transfer is imposed by SB 612 and AB 1197 which were passed on the last day of the 1988 Legislative session without the customary and essential review for policy and fiscal impact.
SB 612 (Presley) provides much needed State funding for the operation of a County's trial courts, but the "no and low" provisions were added to the companion appropriation measure AB 1197.

Riverside County is one of the sixteen counties affected by the no and low property tax cities portion of AB 1197. In the State's attempt to provide an equal tax rate to California cities, further inequities were caused to counties. Twelve of the sixteen affected counties are also "low property tax" counties having a property tax share that is less than the Statewide County average of 33%. Yet, current law specifies that if a County opts to received much needed funding for its Trial courts, that County must transfer a portion of its current share of property tax to specified cities without regard for the relative fiscal condition of the County or the cities.

Closer examination of the no and low property tax cities provision indicates numerous other troublesome aspects. Riverside County has five no and low property tax cities. Three cities incorporated after passage of AB 8 and, therefore, receive a "low" amount because the Cortese-Knox Act Formula transferred to an amount that was commensurate with the cities service responsibilities.

All five cities have redevelopment agencies. These redevelopment agencies receive up to 60% of total property taxes generated within the cities jurisdictions. The County's share of property taxes in these cities, including the pass-through amounts ranges from 19.24% to 30%. Attachment I provides an analysis of property tax allocations to these cities mandated by AB 1197 and the impact on the Riverside County Trial Court Funding Program.

In addition, special districts or service zones for traditional municipal services are used by all of our no and low property tax cities. They support such services as fire protection, libraries, and parks. We believe that these tax proceeds should be counted as a portion of the cities share of property taxes because they support City services. Each of these Riverside County cities receives 6¢ to 8¢ per property tax dollar collected in municipal fire protection, library and other services.

Recommendations:

We recommend that AB 1197 be amended to:

1. Eliminate property tax transfer provisions in their entirety; or provide State funding for this transfer; or

2. Eliminate property tax transfers to cities which incorporated after the effective date of AB 8;
3. Include in the calculation of each City's property tax base, for purposes of determining eligibility for a tax transfer, the following:

   (a) Any property taxes received by special districts providing traditional municipal services to residents of the affected City: including fire, library and recreation and parks services.

   (b) Any property taxes received by community redevelopment projects within the jurisdiction of the City.

Summary

In conclusion, we commend your efforts to examine the complex issues surrounding the allocation of property taxes. We need a careful review followed by major reforms if counties are to be provided with an adequate base of discretionary revenue for essential local programs.

In addition, Riverside County is a defendant in a lawsuit brought by the City of Rancho Mirage which challenges the AB 8 framework. Rancho Mirage is a "no tax" City and brings arguments in equity why its residents should receive a zero City tax base - Riverside County maintains that its property tax distribution calculations conform to State law; State Controller Auditor's have confirmed that Riverside County property tax distributions do comply with State Law.

I will be happy to answer any questions you may have.

COUNTY OF RIVERSIDE
AVERAGE DAILY POPULATION

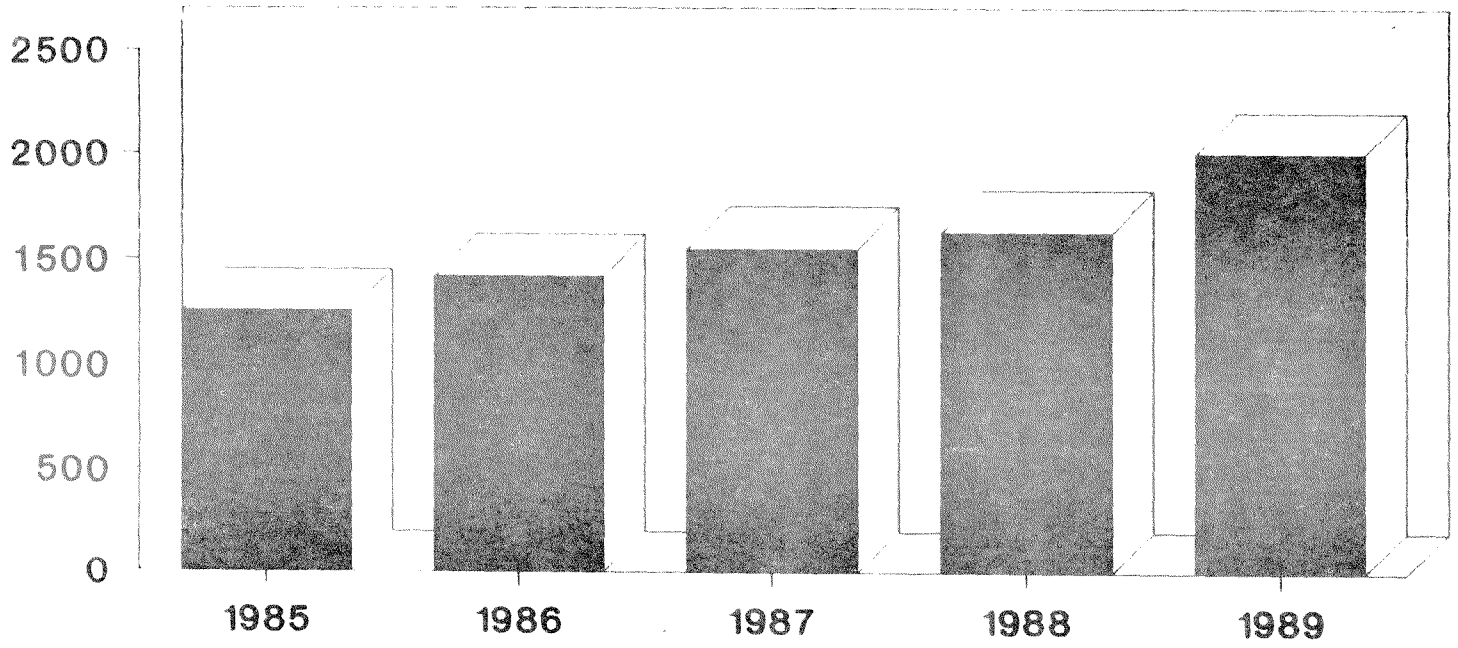


CHART 1

CORRECTIONS-ADP

EST.1989-90; ACTUAL 1985 TO 1988

COUNTY OF RIVERSIDE
CORRECTIONS PROGRAM

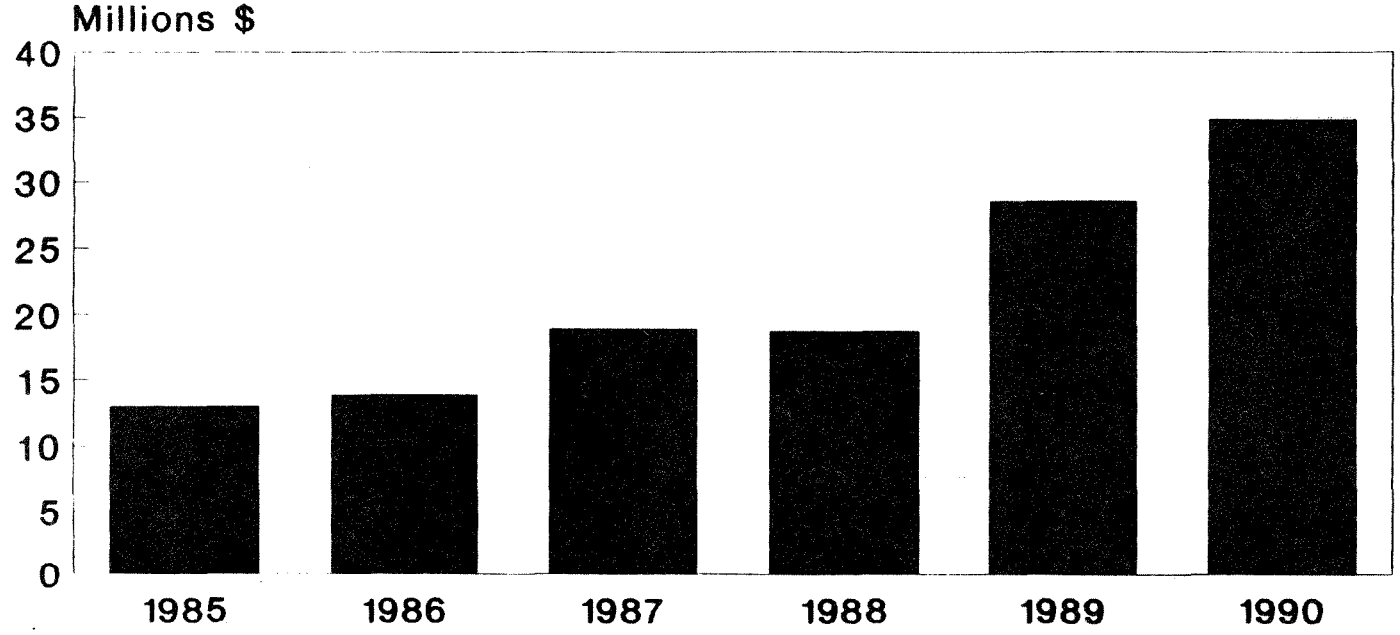


CHART 2

EXPENDITURES

BUDGET 1989-90; ACTUAL 1985 TO 1989

COUNTY OF RIVERSIDE
CORRECTIONS PROGRAM

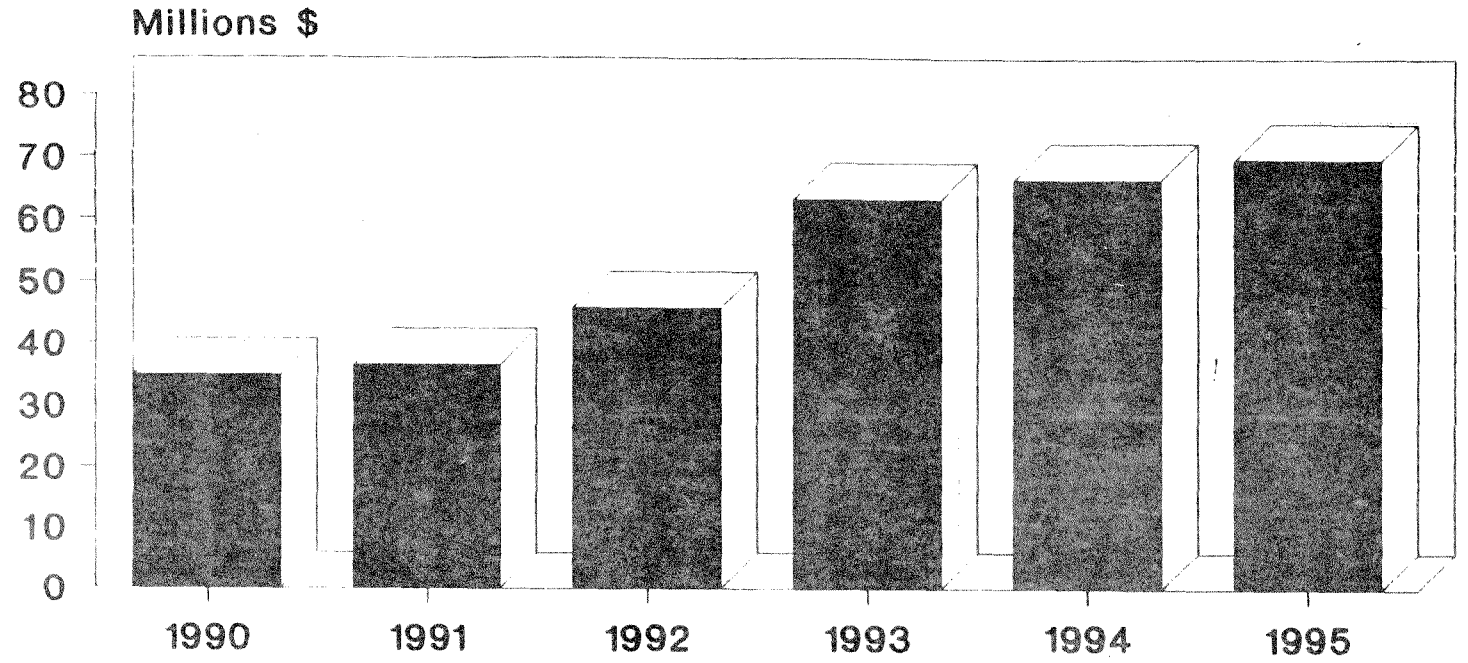


CHART 3

EXPENDITURES

BUDGET 1989-90; PROJECTED TO 1995

A-3

County Administrative Office

October 25, 1989

Ladies and Gentlemen:

The Riverside County Administrative Office prepared revenue estimates and graphs (attached) describing the impact of the Trial Court Funding Program and No and Low City Provisions (AB 1197).

These graphs and schedules will be discussed at the upcoming meeting at the Palm Desert City Hall (10:30 a.m. on November 2, 1989).

Please phone me at (714) 787-2125 if you need additional information.

Sincerely,

Chris Papesh

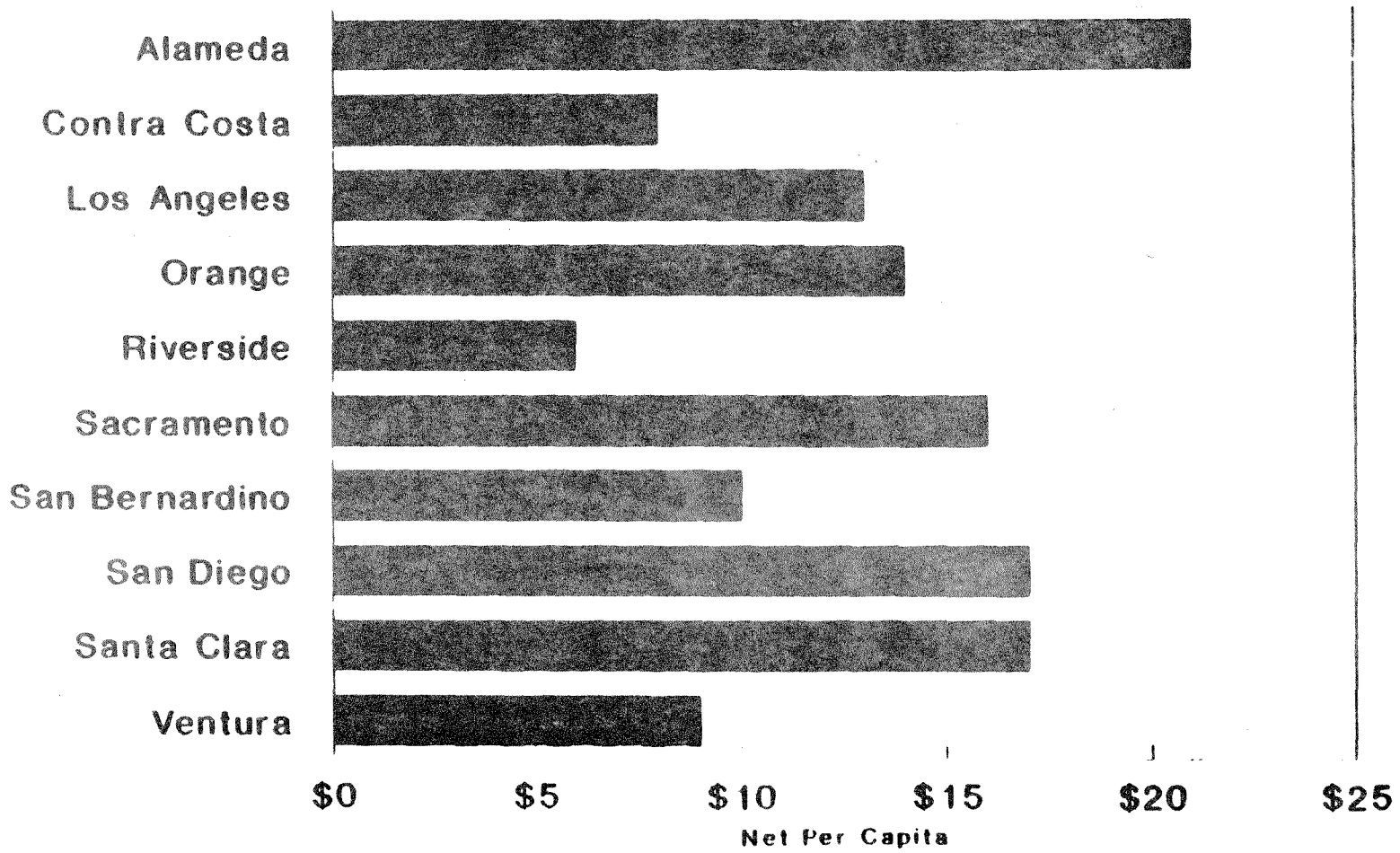
CHRISTOPHER PAPESH
Finance Director

Attachments

Robert T. Andersen Administrative Center
4080 LEMON STREET • 12TH FLOOR • RIVERSIDE, CALIFORNIA 92501 • (714) 787-2544

TRIAL COURT FUNDING PROGRAM

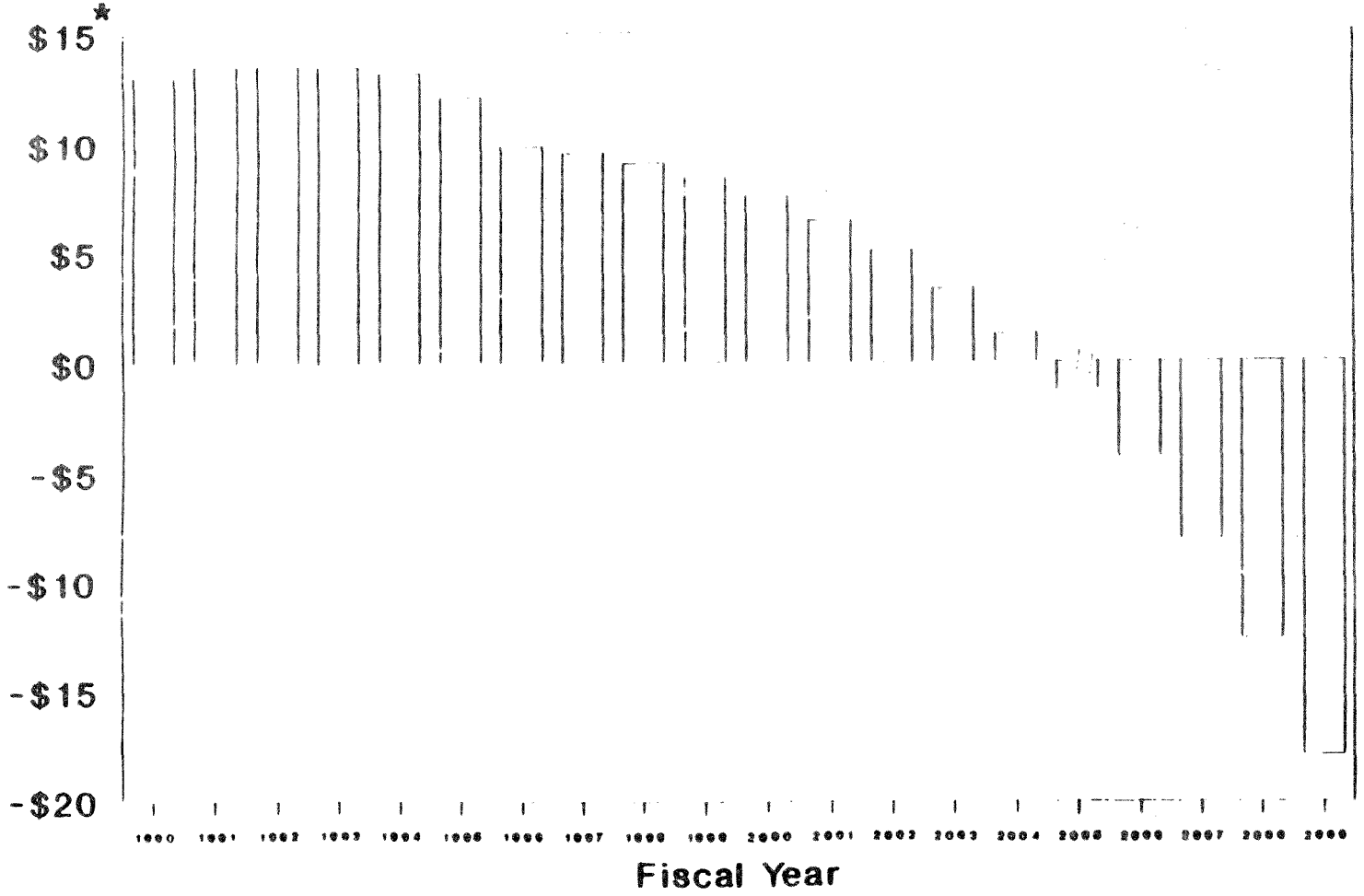
ESTIMATED PER CAPITA REVENUE *
TEN LARGEST CALIFORNIA COUNTIES



* Trial Court Revenue net of No and Low Tax Transfers for Fiscal Year 1997-98

NO AND LOW PROPERTY TAX TRANSFERS **

NET GAIN ‹LOSS› TO RIVERSIDE COUNTY
TRIAL COURT FUNDING PROGRAM



* In Millions
** Estimated revenue/transfers based on actual assessed value growth for the past two years.

W AND L&W (AB1197) PROPERTY TAX TRANSFERS

12 COUNTY OF RIVERSIDE ADMINISTRATIVE OFFICE

[illegible] 8a

	FY	INDIAN WELLS C100	PALM DESERT C400	RANCHO MIRAGE C500	NORENO VALLEY C300	LA QUINTA C200	TOTAL AB1197 LOSS TO COUNTY	TO RIVERSIDE COUNTY 5.00% TOTAL COUNTY ALLOCATION CRABY	NET GAIN (DEFICIT) TO COUNTY
1	89/90	$0	$0	$0	$0	$0	$0	$13,000,000	$13,000,000
2	90/91	29,752	55,878	79,855	0	0	165,495	13,650,000	13,484,505
3	91/92	165,916	330,899	287,579	0	0	783,594	14,332,500	13,548,906
4	92/93	344,089	661,827	531,044	0	36,586	1,573,546	15,049,125	13,475,579
5	93/94	574,118	1,060,173	414,311	0	196,336	2,645,540	15,801,581	13,156,041
6	94/95	867,896	1,535,532	1,144,394	547,936	411,798	4,507,556	16,591,660	12,084,105
7	95/96	1,239,768	2,099,754	1,525,294	2,051,248	697,744	7,613,808	17,421,243	9,807,435
8	96/97	1,434,411	2,322,328	1,658,757	2,550,726	821,943	8,788,165	18,292,305	9,504,140
9	97/98	1,659,614	2,568,495	1,803,898	3,171,828	968,248	10,172,083	19,206,921	9,034,838
10	98/99	1,920,173	2,840,755	1,961,740	3,944,168	1,140,597	11,807,433	20,167,267	8,359,833
		8,235,747	13,474,840	9,807,474	12,265,906	4,273,252	48,057,219	163,512,603	115,455,384
LVF GROWTH		15.70%	10.60%	8.75%	24.35%	17.80%			
11		2,221,640	3,286,754	2,269,733	4,563,402	1,319,671	13,661,200	21,175,630	7,514,430
12		2,570,438	3,802,774	2,626,981	5,279,857	1,526,859	15,806,909	22,234,412	6,428,403
13		2,973,996	4,399,810	3,038,376	6,108,794	1,766,576	18,287,552	23,346,132	5,058,580
14		3,440,914	5,090,580	3,515,401	7,067,875	2,043,928	21,158,698	24,513,439	3,354,741
15		3,981,137	5,889,801	4,067,319	8,177,531	2,364,825	24,480,614	25,739,111	1,258,497
16		4,606,176	6,814,500	4,705,088	9,461,403	2,736,103	28,324,070	27,026,066	(1,298,004)
17		5,329,345	7,884,376	5,444,713	10,946,844	3,165,671	32,770,949	28,377,370	(4,393,579)
18		6,166,053	9,122,223	6,299,532	12,665,498	3,662,481	37,915,988	29,796,238	(8,119,750)
19		7,134,123	10,554,413	7,288,559	14,653,981	4,237,722	43,868,798	31,286,050	(12,582,748)
20		8,254,180	12,211,455	8,432,863	16,954,656	4,903,044	50,756,199	32,850,353	(17,905,847)
		46,678,002	69,056,687	47,698,466	95,879,842	27,727,080	287,030,076	266,344,000	(20,685,276)

ASSUMPTIONS

1 AB1197 - RDA REDEVELOPMENT
50.00%
ESTIMATED PASS
THRU PERCENTAGE

2 CURRENT ASSESSED VALUE GROWTH RATES WILL CONTINUE

Redevelopment Agencies

The California Community Redevelopment Law authorizes the redevelopment agency of any city or county to issue bonds payable from the allocation of tax revenues resulting from increases in assessed valuation of properties within designated project areas. In effect, local taxing authorities other than the redevelopment agency realize tax revenues only on the "frozen" tax base except for those instances where the affected taxing agencies have negotiated agreements with redevelopment agencies to receive a share of tax increment proceeds. The following table summarizes the effects of such tax allocation.

COMMUNITY REDEVELOPMENT AGENCY PROJECTS
IN THE COUNTY OF RIVERSIDE - FROZEN BASE VALUE,
FULL CASH VALUE INCREMENTS AND TOTAL TAX ALLOCATIONS
FISCAL YEARS 1980-81 THROUGH 1988-89

Fiscal Year	Frozen Base Value	Full Cash Value Increments (1)	Total Tax Allocations (2)
1980-81	$ 501,717,316	$ 364,792,768	$ 4,050,590
1981-82	559,381,672	549,689,230	6,201,543
1982-83	1,368,383,879	899,323,734	9,928,090
1983-84	1,897,655,830	1,267,101,611	13,659,742
1984-85	2,628,348,768	1,808,184,155	19,225,287
1985-86	4,191,660,692	2,682,153,692	28,570,864
1986-87	4,459,638,366	3,619,517,156	37,892,618
1987-88	5,202,034,448	4,587,595,969	48,169,758
1988-89	5,663,597,652	5,845,177,342	60,992,585

(1) Full cash value for all redevelopment projects above the "frozen" base year valuations. This data represents growth in full cash values generating tax revenues for use by the community redevelopment agencies.

(2) Actual cash revenues collected by the County and subsequently paid to community redevelopment agencies, subject to debt limitation and certain negotiated agreements with taxing entities for a share of the property tax increment.

Source: The County.

The County has formed a redevelopment agency with project areas in 25 unincorporated communities encompassing a total land area of 31,136 acres. The base year assessed value, including State-owned land, totaled $579.2 million. Tax increment revenue began accruing to the County Redevelopment Agency on July 1, 1987. The loss in tax revenue to the County General Fund as a result of the County Redevelopment Agency in fiscal year 1989-90 is estimated at $330,000.

Constitutional Limitations on Taxes and Appropriations

Article XIIIA of the California Constitution limits the taxing powers of California public agencies. Article XIIIA provides that the maximum ad valorem tax on real property cannot exceed 1% of the "full cash value" of the property, and effectively prohibits the levying of any other ad valorem property tax for general purposes. However, on June 3, 1986, Proposition 46, an amendment to Article XIIIA, was approved by the voters of the State of California. Proposition 46 creates a new exemption under Article XIIIA permitting an increase in ad valorem taxes on real property in excess of 1%

[illegible] personal property, improvements or possessory interests [illegible] assessed to the assessee.

The following tables set forth, among other things, the secured and, unsecured property tax levies of real property in the County and the delinquency rates of ad valorem taxes for fiscal years 1984-85 through 1988-89.

COUNTY OF RIVERSIDE
SUMMARY OF AD VALOREM PROPERTY TAXATION

FISCAL YEARS 1984-85 THROUGH 1988-89
LEVY AND COLLECTION HISTORY (1)

Fiscal Year	Secured Property Tax Levy June 30	Current Delinquent June 30	Percentage Current Taxes Delinquent June 30	Total Collections(2)	Percentage Total Collections to Current Levy
1984-85	$317,404,545	$ 23,647,760	7.45%	$315,800,842	99.50%
1985-86	350,885,279	22,501,098	6.41	353,280,631	100.68
1986-87	395,750,300	21,513,315	5.43	401,446,017	101.44
1987-88	460,071,536	24,044,436	5.23	466,570,186	101.41
1988-89(3)	506,300,000	27,897,130	5.51	511,363,000	101.00

UNSECURED PROPERTY TAX ROLL

Fiscal Year	Unsecured Property Tax Levy June 30	Total Collections(2)	Percentage Collections to Original Levy
1984-85	$10,890,281	$11,878,455	109.10%
1985-86	13,077,687	14,829,804	113.40
1986-87	16,843,427	18,373,239	109.10
1987-88	19,874,659	21,298,494	107.16
1988-89(3)	20,948,193	21,694,000	103.56

ASSESSED VALUATION HISTORY
BY CATEGORY AND PROPERTY TYPE (4)
(IN MILLIONS)

SECURED PROPERTY

CATEGORY	1984-85	1985-86	1986-87	1987-88	1988-89
Land	$ 9,261	$10,371	$11,519	$13,220	$15,003
Structures	14,535	16,617	18,765	21,787	24,515
Fixtures	284	271	326	344	377
Trees and Vines	107	84	94	97	84
Personal Property	240	260	279	320	437
Utilities	1,413	1,541	1,796	2,004	2,098
Total Secured	$25,840	$29,144	$32,779	$37,772	$42,514

UNSECURED PROPERTY
(IN MILLIONS)

	1984-85	1985-86	1986-87	1987-88	1988-89
Land	$ 3	$ 5	$ 4	$ 6	$ 7
Improvements	396	528	828	928	907
Personal Property	576	630	691	877	1,067
Total Unsecured	$ 975	1,163	1,523	1,811	$ 1,981
Grand Total	$26,815	$30,307	$34,302	$39,583	$44,495

$200,102,532.50
County of Riverside Asset Leasing Corporation
Leasehold Revenue Bonds, 1989 Series A
(County of Riverside Hospital Project)

Current Interest Bonds Dated July 1, 1989
Capital Appreciation Bonds Dated the Date of Delivery **Due June 1, as shown below**

The Bonds will be issuable in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of interests in the Bonds will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof or, with respect to Capital Appreciation Bonds, a denomination such that the Final Compounded Amount on such Capital Appreciation Bond will be $5,000 or any integral multiple thereof. Purchasers of such interests will not receive Bond certificates representing their interest in the Bonds purchased. Principal and interest are payable directly to DTC by Security Pacific National Bank, Los Angeles, California, as Trustee. Principal is payable on the dates set forth below. Interest on the Bonds, other than the Capital Appreciation Bonds, is payable semiannually on June 1 and December 1, commencing December 1, 1989; interest on the Capital Appreciation Bonds is not payable, semiannually, but is payable at maturity or upon redemption. Upon receipt of payments of principal, Accreted Value at maturity or early redemption and interest, DTC will in turn remit such principal, Accreted Value and interest to participants in the DTC system for subsequent disbursement to purchasers of interests in the Bonds, all as more fully described herein.

The Bonds will be subject to optional, mandatory and extraordinary redemption as described herein.

The Bonds are being sold, executed and delivered to provide funds for the acquisition, construction, equipping and development of certain health facilities within the County of Riverside, California (the "County").

The Bonds are payable from revenues consisting primarily of Base Rental payments to be made by the County to the County of Riverside Asset Leasing Corporation (the "Corporation") for certain real property and improvements to be constructed thereon and equipment to be acquired in connection therewith (the "Project") under a Lease and Option to Purchase, dated as of July 1, 1989, by and between the Corporation and the County and an Equipment Lease, dated as of July 1, 1989, by and between the Corporation and the County, respectively, (collectively referred to herein as the "Lease"). The County has covenanted in the Lease to take such action as may be necessary to include Base Rental and Additional Rental payments due under the Lease in its annual budget, and to make necessary annual appropriations therefor.

Payment of the Accreted Value of the Bonds maturing on June 1, 2002 and the principal of and interest on the Bonds maturing on June 1, 2010 when due will be guaranteed by a municipal bond insurance policy to be issued simultaneously with the delivery of the Bonds by:

BOND INVESTORS GUARANTY
INSURANCE COMPANY

The Bonds are special limited obligations of the Corporation and will be payable from and secured solely by the proceeds, revenues and amounts pledged therefor. Neither the Bonds nor the obligation of the County to make Base Rental payments under the Lease constitutes a debt of the County, the State of California or any political subdivision thereof within the meaning of the constitution of the State of California.

$26,645,000 Serial Bonds

Year	Amount	Interest Rate	Price/ Yield
1999	$8,280,000	7.0%	7.10%
2000	8,870,000	7.0	7.15
2001	9,495,000	7.0	7.20

$65,915,000 7.20% Term Bonds due June 1, 2010—Yield 7.25%
$38,450,000 7.40% Term Bonds due June 1, 2014—Yield 7.45%
$64,895,000 6.25% Term Bonds due June 1, 2019—Yield 7.30%
(Plus accrued interest to be added)

$4,197,532.50 Capital Appreciation Bonds due June 1, 2002—Yield 7.10%
(Initial Amount per $5,000 Maturity Amount—$2,067.75)

In the opinion of O'Melveny & Myers, Bond Counsel, assuming compliance by the County and the Corporation with certain tax covenants described herein, interest on the Bonds is excluded from gross income for federal income tax purposes under existing statutes, regulations, rulings and court decisions and is exempt from personal income taxes of the State of California under present state law. In addition, original issue discount ("OID") with respect to the Bonds, if any, and the excess of the Accreted Value at any time of any Capital Appreciation Bond over the Initial Amount thereof, properly allocable to the Owner of such Bond, is treated as interest and is excluded from the gross income of each Owner for federal income tax purposes and is exempt from personal income taxes of the State of California to the same extent as interest. Interest, OID, if any, and the excess of Accreted Value of Capital Appreciation Bonds over the Initial Amount thereof from time to time are included in the computation of certain federal taxes on corporations. See "TAX EXEMPTION" herein.

The Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by O'Melveny & Myers, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Underwriters by Jones Hall Hill & White, A Professional Law Corporation, San Francisco, California, and for the Corporation and the County by the Riverside County Counsel. It is expected that delivery of the Bonds will be made on or about October 5, 1989, in New York, New York against payment therefor.

The First Boston Corporation **Merrill Lynch Capital Markets**

The date of this Official Statement is September 14, 1989

TESTIMONY OF
AMANDA SUSSKIND AND
DIANE SHAMHART

STATEMENT OF LOS ANGELES COUNTY
SENATE LOCAL GOVERNMENT COMMITTEE
INTERIM HEARING ON REDEVELOPMENT -- DECEMBER 7, 1989

BACKGROUND

In the past 10 years, there has been a substantial increase in redevelopment activity in terms of new projects created, amendments to existing projects, and monies diverted from taxing entities. State and Federal monies to finance local public improvements, infrastructure, and housing have diminished over the corresponding time period. Although redevelopment was created by the State legislature to provide local government with a means to eliminate blight, improve housing, and stimulate economies, it is as likely to be used to finance public purpose improvements, infrastructure, and other local needs as opposed to its original intent.

The County of Los Angeles has sponsored, supported, and opposed various legislative proposals on redevelopment over the past 10 years, sometimes successfully, other times not. At times, the approach has been for overall major reform; other times to zero in on a particular aspect of redevelopment law. The County is not opposed to redevelopment, but to the misapplication of its broad powers and subsequent impact on property taxes.

In 1985, the County of Los Angeles sponsored SB 1039 (Montoya) and, in 1986, AB 4367 (Waters) both of which sought reform in redevelopment. In 1986 the County also supported AB 3174 (Cortese) to limit receipt of tax increment to the annual financial needs of redevelopment agencies. More recently, the County of Los Angeles supported SB 2740 (Kopp) which requires agencies to provide all written information on ongoing and planned development in a proposed project area, with the exception of trade secrets of potential contractors with the agency. The County of Los Angeles also sponsored AB 498 (Polanco) in the 1989 session of the Legislature which requires agencies to explain why the elimination of blight cannot be accomplished by the private sector alone, or by uses of financing alternatives other than tax increment. This bill further requires agencies to prepare and submit a written response to the chairperson of the fiscal review committee responding to the committee report no later that one week prior to plan adoption.

Community redevelopment law provides a mechanism to fund redevelopment activities using taxes attributable to development activities. It was intended to benefit the community and the taxing entities which supply needed and often mandated services. This was to be accomplished by redeveloping a "blighted area" within a specified time period, at the end of which the area would have a healthier economic base.

Redevelopment law was never intended to permanently divert funds from various taxing entities, such as the County of Los Angeles. It was to provide a mechanism for eliminating blight so that communities could become economically viable and productive. At the end of any given redevelopment project, the revitalized area would provide numerous benefits to the community, including the realization of increased revenues to taxing entities serving the community.

The growing number of redevelopment projects and the extension of the terms of these projects (ranging from 25 to 50 years), raise serious doubts as to the realization by taxing entities of the benefits of redevelopment. In addition, redevelopment law was established at a time when limitations on taxing entities were not as stringent as they are today. It was adopted in a time when the decay of cities was at its worst and revenue sources were more abundant.

Since then, Proposition 13 placed severe limitations on the generation of revenue as well as other fiscal limitations. This created an environment whereby cities could shift the burden of many local projects and needs to their redevelopment agencies.

Counties and other taxing entities, however, are unreasonably burdened with funding these activities. In exchange for the diversion of funds from the taxing entity, it is left with what has become an empty promise that the economic benefit at the end of the project, including higher property tax revenues allocated to the taxing entity, would be realized.

FACTS

-- The County of Los Angeles includes 86 cities, covering an area of approximately 4,100 square miles.

-- Population in the County has grown 42 percent since 1960. An estimated 8.5 million people reside in the County of Los Angeles, including approximately 7.5 million living in incorporated areas. All residents require a multitude of State-mandated and local services provided by the County.

-- There are a total of 220 redevelopment projects in 63 cities in the County of Los Angeles. Some cities have adopted projects that include 100 percent of the city.

-- Redevelopment Agencies diverted $178.3 million from County taxing entities in Fiscal Year 1988-89, an increase of 9 percent over the previous fiscal year and over 440 percent since Fiscal Year 1978-79.

-- As indicated in the attached charts, the $178.3 million diverted in Fiscal Year 1988-89 would have financed the net County cost in any number of programs in health, welfare, recreation, etc.

-- Each year more cities form new redevelopment projects or amend existing projects. More and more of the County is being engulfed by redevelopment projects. As a result, each year sees a reduction in County areas that produce property tax revenue for the County; at the same time, the demand for County services continues to increase as normal development and population grows.

DISTURBING TRENDS

-- Whenever a redevelopment project approaches the end of the project, nears its bonded debt limit, annual tax increment limit, or its maximum tax increment limit, the agency amends the plan to take advantage of additional tax increment.

-- Agencies set bonded debt limits and tax increment far beyond what the project is estimated to generate. Limits are established not by what the project intends to do, but by what agencies estimate the project will generate in tax increment.

-- Agencies incur debts regardless of what the project can repay. In order to capture the maximum tax increment, agencies incur debts that far exceed its annual revenues. Existing law perpetuates this practice since agencies know that as long as they have debt, regardless of the life of the project, they will continue to receive increment. Some agencies go as far as setting its limit on when it can incur debt to the final year of the project's life.

-- There has been a greater emphasis by Redevelopment Agencies to use tax increment for public improvements. Such development does little, if anything, to increase property values and tax revenues, but appears to be used to offset and/or augment a city's public works budget.

-- Existing law permits adding use of tax increment financing to a project which did not originally do so without making any provision for adjustment to the base year.

LEGISLATIVE REMEDIES

As previously stated, the County of Los Angeles is not opposed to redevelopment. However, times have changed and the disparity between financial responsibility and control creates both the motive and the opportunity to use redevelopment as a means of providing indirect relief to a city's general fund. In dealing with reform, emphasis should be placed in the following areas:

-- Tightening definitions of "blight," "financial burden or detriment," and "alternative financing."

-- Limiting the amount of public facilities and infrastructure to be financed with tax increment.

-- Restricting agencies' abilities to extend project terms indiscriminately and establishing unrealistic limits on receipt of tax increment.

-- In addition to freezing the property tax base, all other sources of revenue in the project area should be frozen and the increase in "revenue increment" used to offset costs of development.

-- On older existing redevelopment projects where a pass through agreement was not entered into, provide legislative authority to reopen and review these projects for financial detriment where property tax losses occur.

-- SB 998 (Presley) increases county control over projects in areas that are developing themselves as measured by increasing assess valuations.

-- AB 2374 (Cortese) bases payment of tax increment by county auditors on actual debt, thus cleaning up the ambiguity created by Marek.

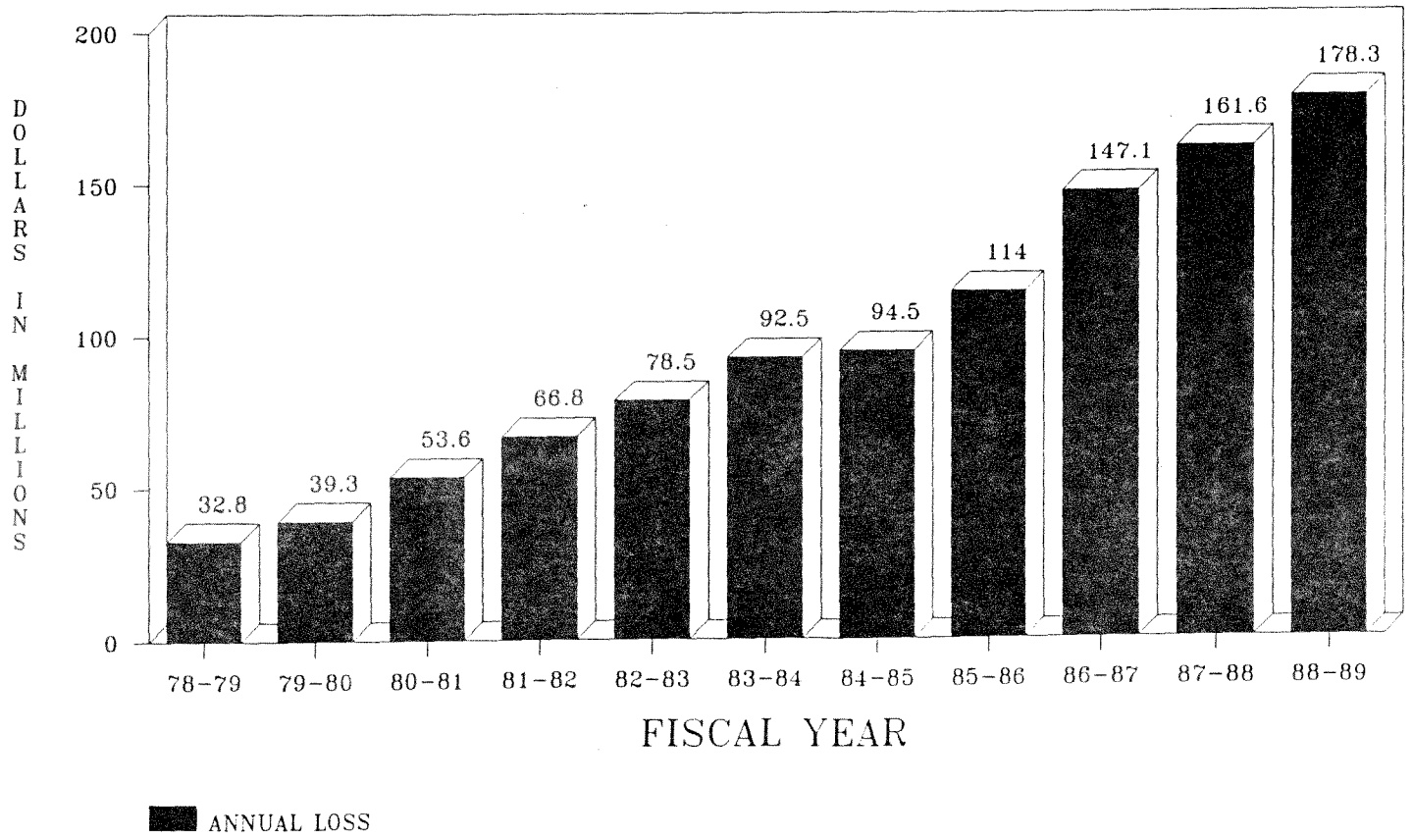
-- As schools' share of loss increase, we expect the State, backfilling the schools, to become more interested and involved in redevelopment. However, proposals for State involvement should not be to the detriment of county control as long as county tax dollars are at stake.

-- Special legislation for disasters or special economic circumstances should be dealt with generally, before actually needed. Taxing entities' interests tend to be overlooked once the situation becomes emergent. Emergency relief should not be dealt with at the cost of ongoing social programs.

Thank you for this opportunity to share with you our concerns and our suggestions for improving the CRA process in California.

Exhibits

LOS ANGELES COUNTY
ANNUAL PROPERTY TAX LOSS TO
COMMUNITY REDEVELOPMENT AGENCIES



LOS ANGELES COUNTY LOSS TO CRA'S
TRANSLATION INTO PROGRAM EQUIVALENTS

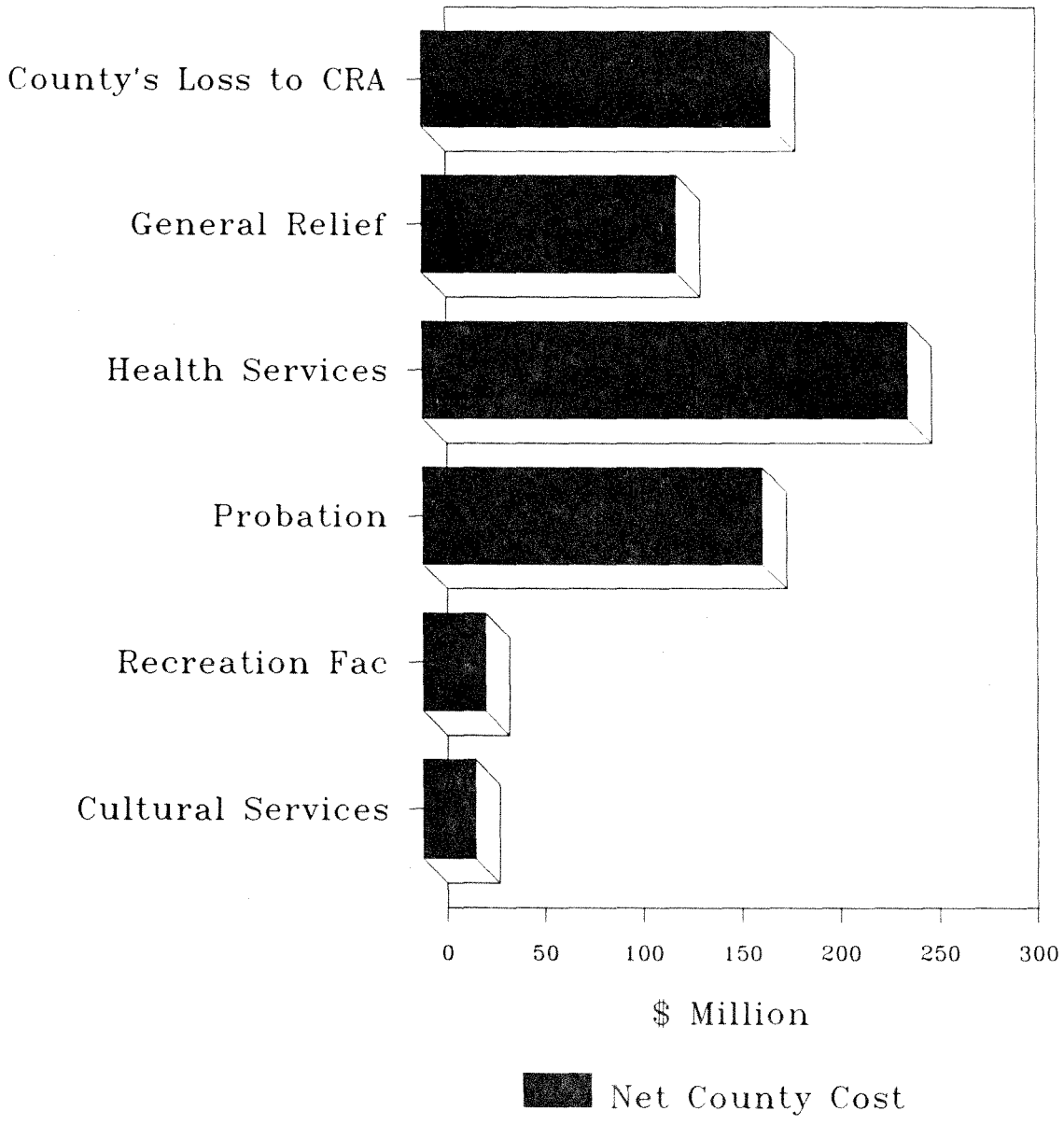
FACT SHEET

Los Angeles County's annual property tax loss to CRA's in Fiscal Years 1984-85 through 1988-89 has been as follows:

Fiscal Year:	All Agencies (in millions)	County of Los Angeles
1984-85	$ 189.5	$ 94.5
1985-86	227.3	114.0
1986-87	261.0	147.1
1987-88	286.5	161.6
1988-89	315.7	178.3

For the Fiscal Year 1988-89, Los Angeles County's annual property tax loss to CRA's was $178.3 million. The following graphs show how this amount translates into various programs now operated by the County: that is, what $178.3 million will buy if translated to alternative uses.

$178.3 million purchases:
(1988-89 Net County Cost)

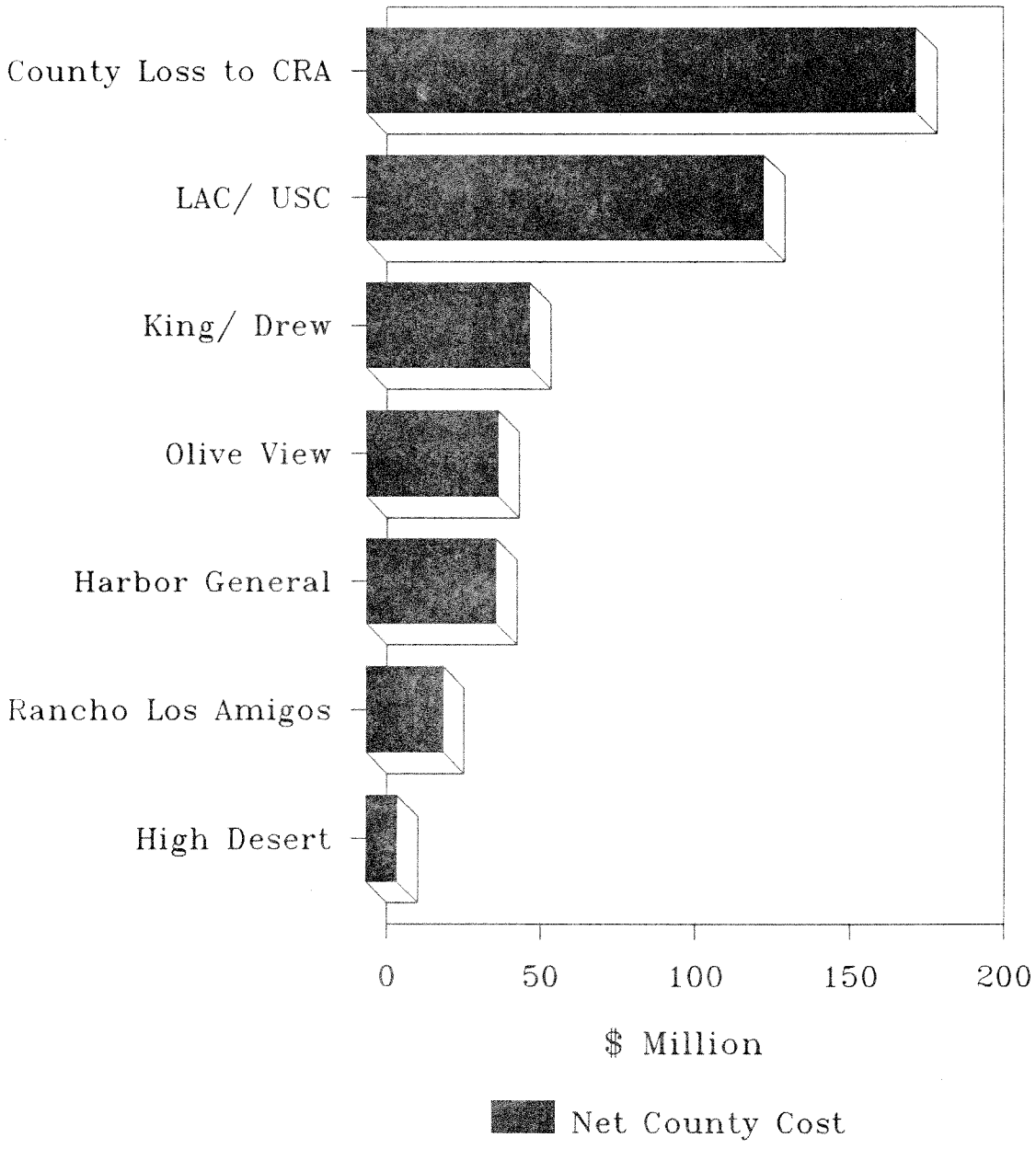


Services Total: $608.8 Million

What $178.3 million will buy in programs

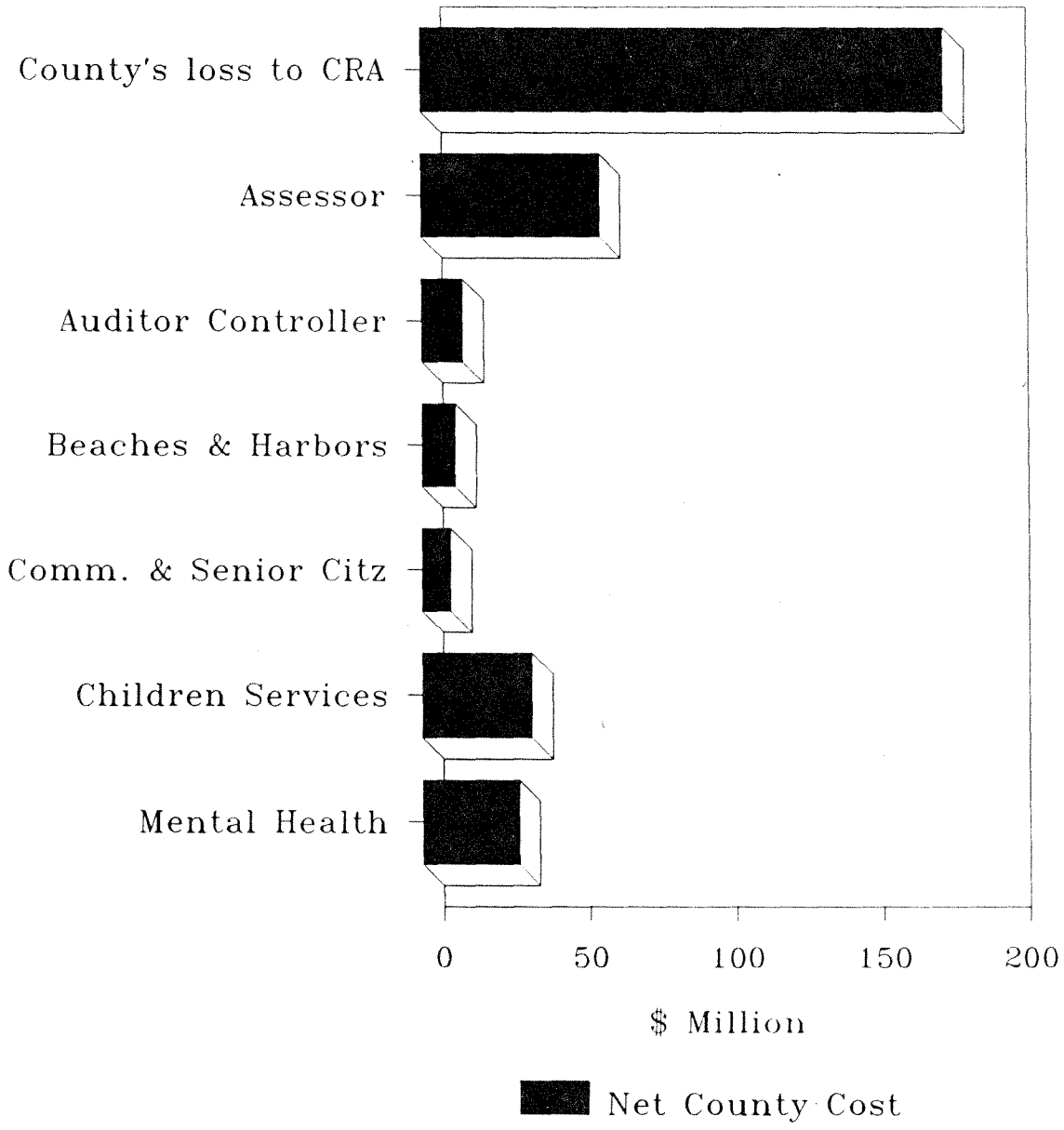
General Fund Contribution to Hospitals

1988-89 Budget



Hospitals Total: $302.7 Million

$178.3 million versus Departments:
(1988-89 Net County Cost)



Department Total: $166.6 Million

TESTIMONY

OF THE WEINGART CENTER ASSOCIATION

BEFORE AN INTERIM HEARING OF THE

CALIFORNIA STATE SENATE COMMITTEE ON LOCAL GOVERNMENT

PRESENTED BY

MAXENE JOHNSTON, PRESIDENT

WEINGART CENTER ASSOCIATION

December 7, 1989

***

Board Room, Los Angeles Community Redevelopment Agency

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Good morning, Madam Chair, and members of the Committee. My name is Maxene Johnston. It is a special privilege to have a few moments with this panel. And may I say that it is an even greater privilege having you with us here in the very heart of downtown Los Angeles. Downtown is where I learned the real meaning of redevelopment. Not as it was legislated, but as it is activated. And it is downtown that challenges our understanding of how to make redevelopment responsive to the myriad of contemporary social trends and issues that test the best intentions to improve the quality of life in our communities.

Since 1984 I have had the privilege of serving as president of the Weingart Center Association (WCA). The Association was formed by the L.A. business community to manage a renovated 12-story Skid Row hotel, now known as the Weingart Center. Built in 1929, as a state of the art hotel in the heart of what was then downtown, by the time we entered the 70's, downtown had moved uptown, leaving behind a 621 room "horror" hotel in the heart of what became down-and-out town. That's the bad news.

The good news, however, is that in the years since, it has been turned into the largest multi-purpose complex of health and human services for the homeless and poor in California. Of course, that makes us the largest provider of such services nationwide as well.

When homeless people enter a Weingart Center program -- be it alcohol, counseling or mental health care -- they find not only housing for up to 60 days (we have accommodations for some 600 men and women at any one time), but also a full spectrum of other essential services. Capable of serving more than 2,000 people per day, our Center is thoughtfully organized in such a fashion as to deliver quality services with a virtual one-stop shopping approach. Nine public and private service agencies -- ranging from the County Departments of Mental Health and Health Services, the American Red Cross, the State Departments of Housing and Corrections, to the Federal Veterans Administration -- operate under our roof.

The business community serves as the social entrepreneur and broker among these disparate entities, ensuring that the Center -- which is financed using an amalgam of public and private revenues -- is fully demand driven and responsive to what our customers (the homeless) and our investors (business and government) want. Simply put, both interests want exits off the streets.

I'm pleased to report that with financial and resource support from the CRA for activities ranging from bricks to beds, from collaboration to coordination...it has been possible to accomplish many objectives set forth in the redevelopment plan for the Central Business District. One of the most important programs supported by CRA provides a screening

and referral program for the poor and homeless in this area. This program has provided transitional housing services to almost 8,000 people over the past 46 months with a 62% success rate in creating exits off the streets. CRA's flexibility in targeting support is critical to meeting rapidly changing community needs. Other accomplishments at the Center supported by CRA included:

(1) The addition of over 130 new beds to the Center;

(2) Expansion of services by approximately 200% over the previous 3 years;

(3) A reduction of debt and an increase in a diverse base of operating revenues;

(4) Creation of a facility and programs considered at local and federal levels as part of the solution--not part of the problem; and

(5) Compliance with stringent fire and seismic code requirements.

While all levels of government have provided the monetary wherewithal to create and operate the Center, along with the private sector, I would have to say candidly that the Los Angeles Community Redevelopment Agency (CRA) must be viewed as a vital part of our financial structure. CRA's focus on the economic and social objectives of redevelopment, cemented traditional requirements of redevelopment, projects of brick and mortar, with programs promoting social order.

I am convinced that CRA's ability to target dollars in a flexible way for contemporary needs has made a significant contribution by creating options and exits out of poverty for many. This not only promotes the ultimate objectives of redevelopment but also the goals of a civilized community.

PRIORITIES FOR SPENDING IN THE 90'S

Our experience has been that redevelopment agencies can be competent and capable of funding and launching enlightened and effective programs.

A high priority for the coming decade should be to spend a portion of redevelopment dollars for operations of social programs targeting multi-service activities that fully integrate services with professional management. We should recognize that every bed for the poor should have a service attached to it and we should support services not provided by other municipalities. The goal should be to move California from focusing on its shelter system to a refocus on full-service transitional housing. If we can develop more full-service facilities, and factor in long term funding to keep programs going, this will ultimately manage a growing problem of redevelopment. It will help to reduce the number of people who become permanently homeless and create difficult urban problems.

Community redevelopment can and should be the enlightened

investor that ensures a balanced approach to dealing with blight while not stimulating flight! As more and more poor, pour onto our streets, -- the goals of redevelopment must be adapted to include support for infrastructure services beyond traditional housing programs. In fact, we are loosing people faster than we will ever replace needed housing. And although in the past, other government entities may have had the sole responsibility for assistance here; the simple truth is that the legislature must have a broader view of redevelopment if we are to rebuild communities. The legislature should balance the economic and social objectives of redevelopment in order to influence the health of community in the future.

I will close by saying that this should be the decade of doing! With legislative action, cooperation and commitment, the public and private sectors <u>can</u> be directed to manage existing resources in innovative ways and to increase the number of people permanently helped by redevelopment strategies. We must think about redevelopment in broader terms and new ways; and that begins with hearings such as this; and minds such as yours.

Thank you very much. I will be happy to answer any questions you may have.

A COPY OF THIS REPORT
IS IN COMMITTEE'S FILE.

MEMO

W

WEINGART CENTER
A Health and Human Services Complex

Date: December 7, 1989

From: Maxene Johnston

To: Senate Committee on Local Government

Subject: WCA Programs and Services Report

Enclosed are reports on three of WCA's programs at the Weingart Center:

- Screening and referral Services (SRS) High Risk Homeless (HRH) Program
- Specialized Shelter Program
- Short-Term Action Integration Referral Services Program (STAIRS)

This should help to update you on the current information available.

MJ:kw

Attachment

December 7, 1989
From: Sherry Passmore-Curtis

Sherry Passmore
Land Use Consultant
P.O. Box 1332
Temple City, California 91780
Telephone (818) 447 5500

To: Senate Committe on Local Government
Marian Bergeson, Chairman

Subject: Interm Hearing - REDEVELOPING CALIFORNIA
FINDING THE LEGISLATIVE AGENDA FOR THE 1990'S

My written comments will not cover all the background report as I only received it four days ago. I will try to comment on additional policy questions that might be included for your review. I also hope to offer another perspective on present redevelopment practices.

BLIGHT COMMENTS:

We would favor a detailed definition of blight for the Redevelopment Law. This would save money and time for everyone - the government and the private sector. Needless lawsuits might be avoided and developers would also know what would be expected of them.

Once blight is defined a redevelopment agency should only use funds to elimate the blighted conditions - Not for other purposes! State voters approved in 1951 the right for redevelopment agencies to use property taxes for the purpose of removing slums and blighted areas as stated in the original ballot argument favoring the Assembly Constitutional Admendment No. 55. The voters did not vote for redevelopment agencies to use their hard earned tax dollars to do pure economic development to subsidize private developers!

Presently many redevelopment agencies are also using sales taxes to pay off debts and to do private projects. Without a constitutional admendment can the redevelopment agency encoumber sales taxes? Can this present diversion be considered a gift of public funds?

Modern day redevelopment seems to be used not to overcome blight but to overcome problems attracting industry to the area. Such a purpose has been declared insufficient by the courts to justify unleashing the extrodinary powers of redevelopment.

Cities and counties choose not to use their police and regulatory powers to cure blight which is allowed under sections 33035 (b) H&S Code. Such blighted areas present difficulties and handicaps which are beyond remedy and control solely by regulatory processes in the excercise of police power. Section 33032 (d) The existence of inadequate public improvements, public facilities, open spaces, and utilities which cannot be remedied by private or **governmental action** without redevelopment.

Most cities turn their back on their existing powers provided under the Health and Safety Codes, Zoning Laws and Fire Safety Codes. It is much more alluring to city & county officials to institute redevelopment with its' enormous powers and abilities to borrow millions of dollars and take or control vast amounts of private property. The point is - **How can the state require cities and counties to use their other alternatives first?**

It should be noted that redevelopment peoject areas can cause blight! Private property owners have a difficult time in getting full value loans to do improvements or projects when eminent domain is hanging over their properties. Many agencies block existing owners plans to develop their own property only to favor the larger developer. Or is the true purpose to force a change in ownership only to capture increased property taxes?

Should it be the role of government to get into private business! Many cities are becomming business partners with hotels, shopping centers, condo projects, and auto centers. What happens when the private partner goes bankrupt? Why should cities be left holding the debt and the cost of running a private facility? We believe that the government should get back to the role of managing the public's business.

When cities capture both new sales taxes and property taxes what revenues will be left to run traditional government? Since only 3% of redevelopment agencies have paid off their projects and returned the property taxes back to normal taxing agencies how long will counties and cities last as a block of government?

We hope that the legislature will look at the present policy of redevelopment agencies discriminating against certain types of businesses. Service industrys are being forced out of communities in favor of businesses that produce sales taxes. Small businesses are shunned in favor of the large business. Redevelopment tax proceeds are not shared in an equal manner to project area owners. If you are the Oakland Raiders you can receive a gift of 10 million dollars just to think about comming to a redevelopment project area. This is not right.

We feel that the present policy of counties agreeing to "pass through's" is wrong when the project does not comply with state redevelopment law. Why should the state bother making a law if it means nothing? As to the question of who should enforce the redevelopment law we would like to look at very carefully. Who's job is it to enforce other state laws?

We believe that if counties are doing or considering accepting a pass-through agreement, where the redevelopment agency agrees to provide maintenance, that it might be violating existing law under the Hannigan Bill passed in 1984. Should redevelopment start getting into the maintenance business? Why even have cities etc., why not let redevelopment agencies run the whole

show!

Another policy question to consider is **why shouldn't redevelopment agencies, cities, counties, state and federal governments have a standard conflict of interest code to follow. When there is a conflict of interest why must the private citizen have to sue to get enforcement of this law?**

We do not believe that agencies that can eventually control billions of dollars should be left to appointed officials to run.

We believe that there needs to be more accountibility in financial matters concerning redevelopment agencies spending practices. Many city councils can't even find out where CRA monies hare gone? There seems to be double dipping in some cities who seem to recieve two salaries for the same function. Thus raising the cost of governmant and redevelopment.

Project Area Commities need more power as they represent the people being affected the most by redevelopment. You should not reduce their imput and control.

Housing figures presented by the CRAS are grossly inflated. Most of the housing built that CRAS want to take credit for has been built with federal monies or other state housing program monies. Very little housing has actually been built with CRA tax increments. It has been our experience all over the state to witness the removal of affordable housing which has led to part of the homeless problem. CRAS have rezoned residential lands in favor of commercial zoning and have left the originional purpose of improving and building decent housing for the disadvantaged.

New **job** figures are grossly inflated. There are no figures presented to show how many jobs have been lost due to forced relocation of business. Most of the Ralph Anderson Report relied on voluntary reporting and most figures turned in could be challanged if a detailed study were to be done in each city.

There is so much more to comment on as there is so much wrong with the present day redevelopment process. I guess our observations watching redevelopment perform over 15 years has led us to believe that the legislature should seriously think about seperating pure economic development from the redevelopment practice and returning redevelopment to the role of improving truly blighted areas.

If this is not done you can expect to continue to see outright war at the local levels where many people are fighting to save their homes and businesses from destruction due to present redevelopment practices.

I will be glad to answer any other questions that you may have.

Senate Committee on Local Government
Peter M. Detweiler, Consultant
Room 2085, State Capitol
P. O. Box 942848
Sacramento, CA 942848-001

These are my comments made at the hearing in Los Angeles on December 7th, 1989.

I am Emma E. Fischbeck, a member of the Los Angeles County Grand Jurors Association which is officially recognized by the Los Angeles County Board of Supervisors and brings together concerned citizens who are former members of Los Angeles County Grand Juries. The Association enables these alumni of the grand jury to continue studying large public issues that have concerned past or present grand juries, and to make recommendations to the Board of Supervisors. Through its officers and committees the Association continues the countywide vigilance and commitment of empaneled grand jurors.

One of our ongoing concerns of the Association has been the use of eminent domain by the redevelopment agencies. As you have stated, earlier this year Assemblyman Mountjoy introduced AB 160 to limit redevelopment agencies' eminent domain powers. Because of this, the topic will not be a major issue at this hearing. However, this last week we were informed by the chairman of the hearing committee, Dan Hauser, that the soonest this matter could be heard by the committee was January 10, 1990. This by necessity means that all interested persons wishing to testify would have to travel to Sacramento...a real hardship for some. If this bill is laid to rest, I urge you in the Senate to reconsider the content of this measure and modify it if necessary, but I and the Los Angeles County Grand Jury Association are in favor of limiting the use of eminent domain by CRAs.

On another topic: Community Redevelopment Agencies within Los Angeles County are always quick to report and point to the number of "UNITS" having been built by the agency. What is the definition of the term -- UNITS? Currently the agencies have been using the definition used in the State Uniform Building Code as a guideline for reporting housing units for State purposes. With the use of this definition, individuals can be counted as a family unit...and so single beds also may be counted thusly.

Disproportionate Share: There are no guidelines provided in the State Law concerning what a "disproportionate share" of administrative expenses are in relation to all agency expenses. The percentage of agency expenditures for salaries and administration (which in some low/moderate income housing funds have ranged up to 76% of total agency

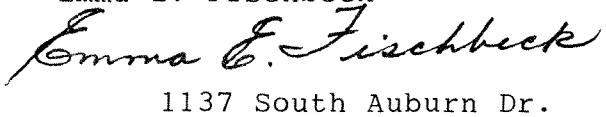
expenditures) seems excessive. A guideline by the Legislature would be appreciated.

Most agencies have no adopted set of written policies and procedures governing its operations relating to low and moderate income housing.

Accountability. There is no enforcement -- no teeth -- in the law governing the community redevelopment agencies. No State Watchdog agency, except the County Grand Juries. These Grand Juries can only recommend that certain practices be corrected, and only with proof of criminal intent or actions can any agency be taken to task for its actions. Most recommendations labor against the solid roadblock of bureaucratic double talk. It seems the State needs to empower a watchdog ... one with teeth.

I wish to thank the committee for hearing the concerns of the Grand Jurors Association and sincerely hope that they are taken to heart, as there is no other avenue of appeal except the initiative.

Emma E. Fischbeck



1137 South Auburn Dr.
West Covina, CA 91791

Copies of Audits may be obtained upon request to the Los Angeles County Grand Jury Office, 13-303 Criminal Courts Building, 210 West Temple Street, Los Angeles, CA 90012 (213)974-3993

1988-89:
A Report on the City of Los Angeles Community Redevelopment Agency: Replacement Housing

An Interim Report on Community Redevelopment Agency, L.A.

A report on Community Redevelopment Agency - Compton

A Report on City of West Covina - CRA - Management Review

A Report on City of West Covina - CRA: Expanded Management Review

1987-88:
Reports of Audits are available for the cities of Irwindale and Pomona

REDEVELOPMENT: GROWING ABUSES CRYING OUT FOR REFORM

CHRIS NORBY, Fullerton City Councilman
Co-Chair, Municipal Officials for Redevelopment Reform
214 N. Yale Ave.
Fullerton, CA 92632
Ph.: (714) 871-9756

The following is an outline of my comments delivered before the Local Government Committee of the California State Senate on December 7, 1989 in Los Angeles.

I. PURPOSE OF REDEVELOPMENT to aleviate sesious urban blight was originally a good one. In doing so, however, the legislature granted to cities extraordinary powers that have now become subject to such widespread abuse that they must be curtailed.

II. REDEVELOPMENT POWERS ABUSED:

A. EMINENT DOMAIN: Property rights are abused when cities condemn the property of one private interest for the benefit of another.

B. TAX INCREMENT FINANCING: In theory the tax increment is created by redevelopment efforts themselves. I reality, most of it is due to inflation and development that would have occurred even without redevelopment. All of this tax increment is funnelled back into redevelopment projects, and is denied to the counties, schools and special districts. The State General Fund is left holding the bag.

C. FLAWED DECISION-MAKING: Redevelopment gives cities vast powers to subsidize and acquire property on behalf on private development. City Councils and staffs must make economic and developmet decisions for which they are not capable.Redevelopment puts cities in the development business, which is the responsibility of the private sector, noot a proper role for government.

D. ANTI-COMPETITIVE: Redevelopment decisions require cities to grant special favors (subsidies, land grants, etc.) to certain select businesses at the expense of others enjoying no such benefits.

E. DISTORTION OF FREE MARKET: Using redevelopment, cities often raid each other's tax bases by luring businesses to relocate through offers of redevelopment "goodies". Redevelopment-subsidized auto malls are a prime example of this. Some cities do benefit, but at the expense of others who have used redevelopment less aggressively. Business owners make location decisions based not on traditional free enterprise considerations, but on which city offers them the highest financial incentives.

F. ZERO-SUM GAME: Since redevelopment does not facilitate industrial growth, but only a redistribution of sales tax revenue, there is no over-all benefit to the state. Redevelopment cannot increase statewide economic activity, but only shift it around. The state General Fund is spending huge sums under the guise of economic development that is, in fact, only an elaborate shell game.

COMMENTS BY NORBY ON REDEVELOPMENT REFORM

(Page 2.)

III. RECOMMENDED ACTIONS: The State Lesislature created Redevelopment, and only the state can reform it. Individual cities cannot be expected to control their own abuses. The legislature must restore a level playing field for all cities so the rules for redevelopment--if it must remain--are clearly defined. Possible courses of action:

A. FORCED PHASE-OUT OF ALL REDEVELOPMENT PROJECTS: The state should intervene to be sure that redevelopment districts are speedily phased out and no new ones be created.

B. LIMITS ON LAND ACQUISITIONS: The legislature should prohibit cities from becoming land acquisition agents for private developers. The power to condemn property for private development should be ended, as well as land "write-downs" at public expense.

C. SALES TAX APPORTIONMENT: Sales taxes to city government should be apportioned on a per-capita basis, rather than on how much is actually raised in specific cities. This would end ruinous inter-city competition for sales tax dollars.

While individual cities--including my own--may be justly proud of their redevelopment efforts, it is clear that on a state-wide basis the abuses far outweigh the benefits. The legislature must look at the issue from the perspective of the entire State of California.

Return our cities to the original responsibilities for which we were created. Return our local economies to free enterprise principle. Stop vast tax subsidies to private developers under the guise of ending blight.

REFORM REDEVELOPMENT!

[Note: My comments reflect my own thoughts and those of Municipal Officials for Redevelopment Reform. They do not reflect a position of the City of Fullerton.]

ONE OF MANY EXAMPLES OF WASTEFUL INTER-CITY COMPETITION FOR FIXED TAX DOLLARS.

Lakewood fights against 'Darth Vader of cities'

The Associated Press

LAKEWOOD — Worried about losing tax revenue from car dealers and other businesses, this city has created a redevelopment district focusing on its "auto row."

The district is in part an effort to stem the exodus of auto dealerships to Cerritos, a neighboring Los Angeles suburb where government incentives have helped build a huge "auto square" that attracts buyers from around the region.

"We deal with very aggressive cities," said City Administrator Howard Chambers.

He said Lakewood had to do something to compete with Cerritos, which he called the "Darth Vader" of cities.

The district, a way to channel government money to private redevelopment efforts, would cover 14 scattered commercial sites at major intersections, as wall as the city's auto row along Cherry Avenue near Long Beach Municipal Airport.

SENATE COMMITTEE ON LOCAL GOVERNMENT
Oversight Hearings, Redevelopment
December 7, 1989

Sandra L. Genis
Member, Costa Mesa City Council

As a Member of the Costa Mesa City Council, which also sits as the Costa Mesa Redevelopment Agency, I have had the opportunity to observe the redevelopment process as it operates in our community. As a result, I have the following suggestions for redevelopment policy:

1. Balance jobs, housing, and capacity of public services.

2. Provide for a maximum life for any redevelopment agency or area.

3. Do not permit debt commitment to exceed the previously established life of the agency, or require adequate provisions for repayment of debt.

4. Establish greater separation between redevelopment officials and other local officials charged with project review.

5. Redefine blight.

6. Provide for sunsetting on declarations of blight.

7. Require use of land acquired within a specified time frame, particularly if the land is taken against the will of the owner.

8. Encourage rehabilitation of existing structures as a priority.

9. Reform tax structure (outside purview of committee)

10. Implementation and enforcement of existing law.

BALANCED DEVELOPMENT

Thus far, City sponsored redevelopment in Costa Mesa has occurred on land primarily occupied by commercial uses, so destruction of existing low cost housing opportunities has not been a problem in Costa Mesa. In fact, two housing projects have been constructed in the redevelopment area. However, a substantial portion of the low to moderate cost housing in one of the projects was intended as a mitigation for housing impacts of a project far removed from the redevelopment area.

The City of Costa Mesa currently has a significant imbalance jobs versus housing, having approximately 87,500 jobs and only 39,000 dwelling units for a population of 94,900. Within the Costa Mesa Redevelopment Area, there are currently approximately 1,100 jobs and 1,860 dwelling units. Under the existing Redevelopment Plan, housing will nearly double, while employment will more than triple. Intensification of commercial

development has been pursued as a source of revenue in the redevelopment area, and once debt is accrued there is great pressure for ever increasing commercial intensities in order to pay off the debt. Although Costa Mesa has provided the required housing set asides, the jobs/housing imbalance has been exacerbated.

Even with residential growth lagging behind commercial growth, significant intensification of residential development is contemplated. Because the redevelopment area is already developed, this must be done at the expense of existing established neighborhoods. Further, the increased densities of housing and commercial development place pressures on infrastructure within the redevelopment area and citywide. In some cases, such as streets, sewers, and water, these services are already near capacity. It is thus essential that both the types and intensities of uses be considered in the light of infrastructure available to serve the area. I would suggest a requirement that redevelopment plans include a public services element, establishing land use intensities consistent with existing and planned infrastructure capacity. This should include a phasing plan to coordinate redevelopment of the area with infrastructure improvements.

AGENCY SUNSETTING

The objective of public redevelopment should be to improve degrading areas. Ideally, the initial, government-sponsored redevelopment projects will provide the impetus for the private sector to begin investing in the area, and bring about a healthy economic climate in the area.

Once the area improves, the redevelopment agency should become superfluous. However, once established, it is the tendency for any government entity to become self perpetuating. After attending to problem areas, there is a natural tendency to cast about for growth opportunities. In some cases, the redevelopment agency may come to compete with, rather than encourage private sector investment. Therefore, it is essential that redevelopment agencies have a sunset date established at the time they are established. This sunset date must provide a reasonable length of time for planning, project implementation, flexibility for market conditions, etc. However, an active agency life in excess of twenty years should be more than reasonable. If an area is still going downhill, the redevelopment agency has obviously failed and should not be perpetuated, and if an area is thriving, then it is no longer needed.

LIFE OF DEBTS

Frequently debt is accrued, with payments to be made based on incremental income. Unfortunately, this debt is often held by the local government sponsoring the redevelopment. In order to provide a positive cost/revenue balance in studies justifying the project, the length of debt repayment may be extended over many decades.

An essentially open ended debt can result in cash flow problems for the sponsoring city, and the continued accrual of incremental income to the agency even though costs of other services to the area rise, places a burden on the City or other local jurisdiction. The length of debt repayment must be limited, and incremental income should not be set aside for the redevelopment agency for an infinitely long period.

SEPARATION OF REDEVELOPMENT AGENCIES AND CITIES

In the City of Costa Mesa, the City Council sits as the Redevelopment Agency. City staff is also Agency staff. It has been my observation that this can impair the objectivity of city staff and elected officials such that those charged with reviewing a project may actually become project advocates. In Costa Mesa, this has resulted in projects with lesser setbacks, lower parking, and higher floor area ratios than would generally be permitted on privately developed parcels in the area.

To cite a specific example, the floor area ratio for the recently approved Triangle Square is 0.95. The local street system could not support this floor area ratio throughout the area, and most other development in the area will be limited to a floor area ration of 0.5 to 0.75. Parking variances for the Costa Mesa Courtyards redevelopment project have resulted parking shortages in the area. Furthermore, the redevelopment project which was intended to eliminate blight, such as "obsolete subdivision patterns" has resulted in a remaindered piece encumbered by an easement in favor of another City redevelopment project, rendering the remaindered parcel extremely difficult to develop without integration into the larger project.

It is my belief that the Agency's eagerness to act as a developer caused the individual Council Members and staff to lose sight of their other function in monitoring and regulating development. Perhaps a greater separation between City and Agency officials would have resulted in a more critical review, avoiding these problems.

REDEFINE BLIGHT

Blight should be redefined to mean property so degraded as to constitute a threat to public health or safety. Existing language has been interpreted in so broad a manner as to render almost any parcel subject to the definition of blight. Although the courts have held that property can't be declared blighted simply because someone would like to see something else on a site, this is not far from actuality in some cases.

In Costa Mesa, we had a block of commercial development which generated a net revenue of $30,000 to the City. Let me emphasize that this is NET, after costs of City services are deducted. Many of the building had been rehabilitated in the recent past, and many patrons of the "blighted" businesses were shocked to learn of the area's "blighted" status. However, the Costa Mesa Redevelopment Area had a vision of another project which they felt would provide a better City image. Therefore, the area was condemned as blighted.

SUNSET DECLARATIONS OF BLIGHT

The area discussed above had been declared blighted in the early 1970's. After that time, portions of the area did, indeed, take on a rundown appearance though others continued to be well maintained. Due to uncertainties regarding alignment of the 55 Freeway which could have eliminated some of the local businesses, and the potential for condemnation for redevelopment purposes, some property owners were reluctant to invest in improvements to their properties.

However, in the mid 1980's the future freeway location became more closely tied down, and, after talking of condemnation for years, the Costa Mesa Redevelopment Agency indicated an unwillingness to condemn further property. After this, extensive private rehabilitation began to occur. In one case a business owner spent over $500,000 in improvements on his shop. However, the "blighted" label remained. As a result, the City of Costa Mesa could condemn the property as blighted, even though the condition of the property had improved since the initial, rather dubious declaration of blight, over 15 years before.

I would suggest that any declaration of blight last no more than 5 years, at which time a property would either cease to be considered blighted, or new findings for a declaration of blight would be required.

PROMPT USE OF LAND

In Costa Mesa, several parcels have remained vacant for several years before redevelopment. One such lot has become something of an attractive nuisance and has become a gathering place for dayworkers seeking employment. (The City of Costa Mesa does maintain a job center elsewhere.)

Weed-filled empty lots can create an impression of blight in an otherwise thriving area. It may even stimulate flight of capital elsewhere. It is suggested that limits be placed on acquisition of land where firm plans for use do not yet exist. Where land is acquired by eminent domain, acquisition should not proceed unless a development plan has previously been approved and a developer is under contract. It is sad enough to see people unwillingly driven from their property, but when the property then sits vacant for years, it is appalling.

ENCOURAGE REHABILITATION

Although the Costa Mesa Redevelopment Agency did have one "demonstration block" project, for the most part, the Costa Mesa Redevelopment Agency has been oriented toward demo/rebuild. Homeowners have complained of being denied Community Development Block Grant funds for rehabilitation of existing housing because they lived in the Redevelopment Agency. Even though no existing residential areas are slated for City acquisition, there appears to be a reluctance to encourage rehabilitation and renovation. One reason expressed has been that even though we have no plans for acquisition now, if we do later, property will cost all that much more in the future.

TAX STRUCTURE

Although the State property tax structure is outside the purview of this committed, it is important to note how the existing tax structure effects redevelopment agencies. Because taxes will not increase significantly unless property changes title, it is in the interests of the local agency seeking to increase revenues to increase property turnover. This is easily accomplished through purchase of a site from one owner and selling it to another. Even without any physical improvements, the local agency realizes an increase in tax base. Therefore, it is in the interests of the local agency to condemn property for resale, even without a redevelopment project. Likewise, there is no motivation to preserve

established neighborhoods, property turnover and resulting instability is encouraged. This can be accomplished through rezones, increased commercial densities adjacent to residential areas, failure to maintain and improve infrastructure, etc.

IMPLEMENTATION AND ENFORCEMENT

There are many provisions in existing law which could help to alleviate existing problems. For example, existing rules requiring the incorporation of proposed intensities into planning programs could help in coordinating land use and infrastructure. Existing rules regarding blight could be narrowly, rather than broadly, interpreted. However, no one really checks to see that rules are obeyed. Unfortunately, the only solutions which readily come to mind involve yet another layer of bureaucracy and loss of local autonomy.

CONDEMNATION

Although I realize it is not the intent of this committee to review eminent domain, as you may be aware, scheduled hearings for AB 160 (Mountjoy) have been cancelled. I have therefore touched on a number of issues related to condemnation. Further I would like to conclude with a request that this committee consider reform of the eminent domain process as currently practiced. Somehow, it has become okay to take away someone's land simply because the powers that be don't think that the most productive use has been made of the land, or because that use doesn't fit in with our desired civic image. This encroachment into our cherished liberties has chilling implications when carried to its logical extreme. Consider, what if you owned a newspaper and someone decided you weren't making the most productive use of that press, and that it impaired the City father's desired self image? What if someone decided you were not making the most productive use of your time? What actions would you consider justified for "the greater good"?

STATEMENT FOR CALIFORNIA SENATE HEARING ON REDEVELOPMENT, DECEMBER 7, 1989

My name is Samuel Schiffer. I live at 729 Cnarga Avenue in Highland Park. I am a member of the Inner City Greens. They have approved the following statement.

The L.A. Community Redevelopment Agency has used Tax Increments and Eminent Domain to create a self-perpetuating bureaucracy that operates without effective City or State oversight. Greed for tax increments leads CRA to railroad unneeded luxury hotels, condos, and office buildings. Guided by its $150 per hour $3 million yearly lawyer Kane, it found non-existent "blight" in Hollywood, crenshaw, and Hoover. Then it used its assumed power of "eminent domain" to throw people out of their homes as it did to 7300 poor families 25 years ago in Bunker Hill and 400 families on the Convention Center expansion site last year.

CRA has an annual budget of some $400 million. A precise figure is not possible because of the omissions in its published budget. Indeed, the published budget is so unsatisfactory that the City Council has refused to approve it. For one example, it is impossible to find Administrator Tuite's $150,000 pay in the budget. For another, it is impossible to find how much CRA spends on Kane and other lawyers. The budget publishes no list of bank accounts, the amounts in each bank, and the interest paid. It lists none of its various "funds", their amounts, and the depositories.

Simlarly, CRA's last Annual Report, issued just one year ago, is worthless because of its numerous omissions. CRA itself retained the Certified Public Accountant who signed the Report; for a genuinely independent, audit, the City Council should have hired the C.P.A.

CRA's lack of accountability begins with its 7 board members, all appointed by Mayor Bradley. Not a single member represents the 95% of Los Angeles citizens who are renters or small home owners--several are involved in a conflict-of-interest; Horwitz owns two 100-unit apartment houses and is a millionaire real-estate mortgage broker. Pastor Kilgore, minister of a Black church and former University of Southern California employee, sat silently while CRA threw Black and Chicano

families out of their homes to enlarge USC's facilities--USC's $17,000 yearly tuition excludes most L.A. residents. Chairman Wood is Assistant Executive Secretary Treasurer of the AFL, committed to big construction projects.

Instead of using the elected City Attorney's legal services, CRA puts its lawyer Kane on a $150 per hour contract. Accepting a payoff from large businessmen, CRA prepared a Hollywood Environmental Impact Report aimed at destroying small homes and businesses and pouring $930 tax millions into CRA coffers. With necessarily limited cash, Hollywood residents took the issue to the courts: at $150 for every hour of delay, Kane refused to discuss any substantive issues in order to break the Hollywood people by dragging out the trial.

CRA supervises Environmental Impact Reports that will pour millions into its treasurydespite the conflict-of-interest. Last week, its board rubber-stamped an EIR for a 28-storey office building on 8th and Figueroa capable of diverting huge amounts of tax increment dollars to itself. The EIR did not reveal the true owners of "R&T Developers"--two large Japanese firms--nor did the board answer a question on the possible criminal sources of R&T money.

Where it cannot cow opponents with "eminent domain" or when it cannot break then with Kane's shyster legalisms, CRA uses the payoff. Thus, Councilwoman Flores theoretically represents the 15th district. This runs south along the Harbor Freeway and balloons into Carson and Wilmington. She has a $600,000 campaign fund although she faced no credible opposition in the last election. Last week, CRA's board rubber-stamped a scheme to deliver 3 square blocks in Wilmington below cost to a developer. CRA's projects in Flores' district are largely concerned with unneeded hotels and commercial buildings to the almost total exclusion of desperately needed housing for poor people. The grateful developers have created Flores' $600,000 campaign fund.

To get rid of these abuses, L.A.'s CRA should be run by the City Council directly or by an elected, not an appointed, board. The Annual Report should be prepared by a CPA retained by the City Council and should conform to S.E.C. standards. CRA's budget should conform to City standards and should reveal all "line" items. Lawyer Kane should be fired with all legal work turned over to the elected City Attorney.

FRANK WONG SUBMITTED
THIS MATERIAL.

Committee on Public Works and Transportation
One Hundred Congress
U.S.House of Representative
Room 2165 Rayburn House Office Building
Washington D.C 20515

Kenneth House: Chief Professional Subcommittee on Surface Transportation.

August 28, 1987

Dear Mr. House:

Thank you for your concern regarding the acquisition of my property by the California Department of Transportation. (Caltran). I received your documents Caltran sent you, titled "Acquisition of Property from Fan Wong" I reviewed the content as you have requested and found false and misleading statements that warrant investigation by your office.

I am not the creator of this document. Therefore, Caltran did not have any authority to claim I wrote it.

Further- more the Washington representative for Caltran Ms. Hoffman told me that I should make no further contact with your office as your office does not have the authority to inquire into the California Freeway spending operation nor do they need to respond to your office. I disagreed with her.

I requested that Hoffman put that in writing, but she refused. And I have not received any calls from Caltran as you were led to believe.

The documents I sent to your office earlier clearly proved they did not follow the acquisition steps and dates as claimed in the documents sent to you by Caltran.

It is not surprising that Caltran would create such a document to deceive you. It does prove that Caltran will go to any length and to any level of government to cover up their illegal activities in California, including rubber stamping or the creation of fraudulent documents such as "Acquisition of property from Fan Wong".

Mr. House, as you can recall I requested your assistance to obtain information three month ago from Caltran. One reason was to provide evidence that Caltran may be involved in questionable activities such as, illegally obtaining property, swindling property owners by not proving just- compensation, Building and obtaining funds for a freeway on land that does not belong to them, and misuse of our Freeway funds that can amount to hundred of millions of dollars.

On receiving your letter I called Ms. Hoffman and requested the information we both agreed to obtain as listed below:.

1. That Caltran answer the set of interrogators submitted to them by your office.
2. That Caltran provide you with all appraisals used to sup-

port eminent domain proceeding.

3. That Caltran provide copies of Court transcripts of all proceedings held in a court of law to support their claims.

4. That Caltran summit a copy of the canceled check from the owner of record as full payment and those documents leading to the agreement signed by the owner.

5. A step by step account as evidence supporting that Caltran did followed the Due Process required by eminent domain Law.

Those involved in eminent domain proceedings are aware that the due processes described by law must be followed without exception before land can be taken, that proper appraisal be done, payments timely paid to the owner and Court preceding conducted as prescribed by law.

It is clear that Caltran cannot support any of the information we have requested.

Therefore the contents and the claims in their documents could not have legally occurred.

We can assume now that Caltran has been in violation of my Rights that is guarantee under our U.S. Constitution along with our Federal and State laws, not to exclude Fraud, misrepresentation, rubber stamping of documents, Illegally transferring of federal highway funds, signing documents under penalty of perjury, removing of court records, transferring personnel property with market value $275000 not theirs. Receiving money under false pretense. Destruction of personnel property. Harassment. Trespassing, intentional mental and emotion harm to my family, intentional cover up using our court system and none payment for property.

To sum it up:

1. Caltran is unable to back up those events listed in their created document (Acquisition of Property from Fan Wong).

2. Caltran cannot produce Court transcripts of the proceedings, that defendant was supposed to be involved in.

3. Caltran is unable to back up their figures in their documents with proper appraisals and comparable sales, offers, deposit and legal documentation including those used in the Final judgment.

4. How is it possible that Caltran is able to produce court official signature without going through the due process of law ?

5. On their list Caltran documented on 12-15-83 the Resolution of Necessity approved. Authorizes Eminent domain.

Enclosed is the agenda for that meeting of 12-15-83. I am not on the agenda and the Resolution of Necessity was not approved as claimed by Caltran or Authorizing for Eminent domain proceedings by the California transportation Commission. Therefore the action Caltran had taken was illegal from the start. They were fully informed and refused to correct it.

I am recommending that the your office, Attorney General office. General Account Office, grand jury, and the California Hoover Commission be involved to investigation into the operation

the California department of transportation.

Please respond.

Sincerely yours,

Frank Wong
434 Valley Street
El Segundo Ca. 90245
213-322 4848

1.

FROM Congressman Glen Anderson's office in Washington D.C OCT 1989

Acquisition of Property from Fan Wong

9-12-83	Offer to purchase for $136,000.00 which was the approved appraisal.
11-7-83	Resolution of Necessity requested.
12-15-83	Resolution of Necessity approved. Authorizes eminent domain.
4-23-84	Suit filed and O.P. served. $136,000.00 security deposit made.
9-30-85	O.P. effective but State did not take actual possession.
10-85	Independent appraiser hired and report submitted - valued property at $109,000.00.
1-16-86	30 day statutory offer - $150,000.00. This is a pretrial offer required under eminent domain law for court to determine whether final offer was reasonable.
1-27-86	Mandatory Settlement Conference. Wong did not appear.
3-4-86	Trial. Judge found for State judgment $109,000.00. This was an uncontested hearing and State had a court approved default judgment because Wong did not appear.
5-6-86	Check in amount of $86,291.58 deposited with court. This is for the $109,000.00 judgment less a mortgage payoff of $22,708.42.
6-6-86	Wong employed counsel - secured a rehearing and it was stipulated that payment would be $150,000.00 less the $22,708.42 for mortgage lienholder. Judge agreed to set aside judgment of 3-4-86 if all parties agreed and stipulated to the $150,000.00 settlement less the mortgage payoff.
7-17-86	Motion by Wong to set aside stipulation of 6-6-86. Judge refused request.
7-31-86 thru 8-1-86	Testimony heard regarding interest rates and rent collections. This was required because Wong continued to collect rent after O.P. date when interest was to be paid. Cannot have both interest and rental. Law provides for offset.
8-19-86	Judgment entered.
9-11-86	Appeal filed by Wong.

9-16-86	$41,068.00 check deposited with court. This amount was arrived at as follows: $150,000.00 less $22,708.42 for outstanding mortgage plus $68.00 for Wong's court costs (filing fees).
10-7-86	Final order recorded. Vesting title to property in State.
10-17-86	Warrant in amount of $127,359.58 mailed by court clerk's office to Wong's attorney.
10-31-86	Appeal denied.
12-31-86	Letter from court to Wong denying appeal.
4-23-87	Wong refused to pick up check at attorney's office. Check is in amount of $127,359.58.
7-17-87	Our understanding that as of this date Wong's attorney has the uncashed warrant.

COUNTY OF LOS ANGELES

5624595

AUDITOR CONTROLLER'S SPECIAL WARRANT

WARRANT CLEARANCE FUND • LOS ANGELES, CALIFORNIA

PAYABLE THROUGH:
SECURITY PACIFIC NATIONAL BANK
LOS ANGELES, CA
THE TREASURER OF THE COUNTY OF LOS ANGELES
WILL PAY TO THE ORDER OF:

NOT PAYABLE AFTER TWO YEARS FROM DATE ISSUED 16-1 1220

COUNTY CLERK
LC 165

177

10171305

MARY BETH AND FAN L WONG
C/O SULLIVAN WORKMAN & DEE
800 S FIGUEROA ST 12 FL
LOS ANGELES CA 90017

ISSUE DATE 101736 | WARRANT NO. 5624595

DOLLARS | CENTS
$**12735968

***ONE HUNDRED TWENTY SEVEN THOUSAND THREE HUNDRED FIFTY NINE AND 58/100 DOLLARS

PEO VS WONG

APPROVED
MARK H. BLOODGOOD AUDITOR-CONTROLLER
BY

"0005624595" 1:122000043:928"922968"

THIS WARRANT IS VOID WITHOUT COLORED BACKGROUND ON FACE.
KNOW YOUR ENDORSER. REQUIRE IDENTIFICATION.

Mary Beth Wong
Fan L Wong

Please Take Notice
This check is being forced on me

SIGNATURE OF PAYEE
This check is being endorsed under protest and in violation of my constitutional rights. This check is being used to cover up the fraudulent activities of OPL Team, Judicial System and ATTYs

ADDRESS OF PAYEE
CITY, STATE, ZIP CODE
I demand this be sent over to a grand jury for investigation. This check will be held as account for evidence.

This Check is Being Cashed Under Protest
Fan & Mary

A-87

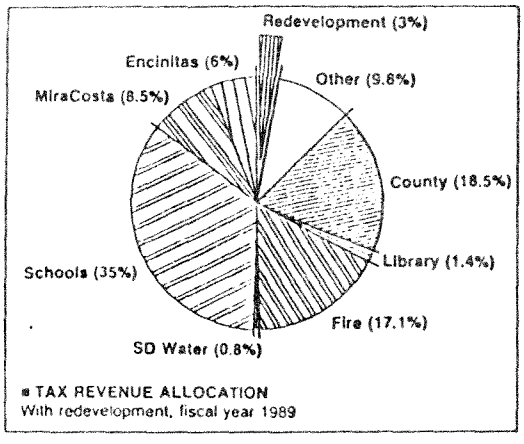
SALLY CRUVER SUBMITTED THIS MATERIAL.

A-88

WHAT'S WRONG WITH REDEVELOPMENT

by Robert Brent of Citizens Against Redevelopment Excesses.

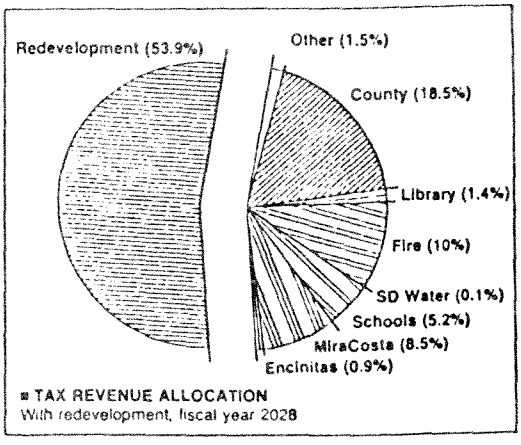
(1)-BLIGHT-Declares one third of city blighted. (2)-SMALL CITY-Redevelopment law is designed for a small part of big city-not big part of a small Encinitas. (3)-DIVERTS TAXES-Complex, go-go financing. Diverts taxes from service agencies ,e.g. fire,sewer,schools, and uses for redevelopment. (4)-CHILDRENS TAXES-spends our children's taxes forty years into future. (5)-BONDS-Bond issues without public vote. Issued against future service agency taxes. (6)- LOCK IN- Once issued BONDS lock taxes into redevelopment for years.(7)-COSTS- Interest, underwriting, etc costs will eat up $2 out of every $3 received from each bond issue. (8)-SERVICES-City services placed in jeapardy. Greatly increased fees can result. (9)- SCHOOL FUNDING-School funding placed in jeapardy. About 60% of the total Redevelopment money will come from the schools. By the 40th year of the program, the division of funds is estimated to be on the order of $15.5 million for the Redevelopment Agency to $2.5 million for the schools. State funds designated to give each child an equal education are supposed to make up the shortfall. (10)-FINANCIAL PROJECTIONS-No adequate financial projections have been provided. (11)-BUDGET-No budget has been estimated. (11)-POWER-Too much power to wheel and deal. (13)-FAVORITISM-Will encourage favoritism. (14)-PROJECTS-Projects listed are only a "may-be's"-not firm projects or even definite plans for projects. (15)-PRIORITIES-No priorities established. (16)-COMMITMENT- No commitment to do any project now listed. (17)-UNLISTED PROJECTS-A new,unlisted project may be added at any time and be done first. (18)-MONEY- No money for any projects for five years unless City lends it. (19)-LOW COST HOUSING- Agency does not know how it will carry out new obligations to provide low cost housing even though 20% of all expenditures must go to low cost housing. (20)-TOWN- Will change character of town. (21)-SLOW GROWTH-Inconsistent with slow growth. (22)-ARBITRARY-Laws should be general and apply to all equally. Redevelopment can be arbitrary and applied to specific owners. (23)-ENMINENT DOMAIN-Agency can still finance actions that use City's right of eminent domain. Using this power it can take home or business property for use as "public" parking for benefit of private businesses, or for low cost housing. (24)-DISPLACE-No room in area for displaced families. (25)-POWER-In practice, arbitrary power will rest in the City Staff. (26)-JUDGEMENT-Business changes depend on business judgement of City Staff. (28)-BLANK CHECK-A forty year BLANK CHECK.----- ASK QUESTIONS. DON'T TAKE HALF ANSWERS. THERE IS NO FREE LUNCH



■ TAX REVENUE ALLOCATION
With redevelopment, fiscal year 1989

Charts refer to School & Services above

Source Redevelopment Agency Mar. 28, 1989



■ TAX REVENUE ALLOCATION
With redevelopment, fiscal year 2028

Sept. 15, 1989

OPEN LETTER TO MEMBERS OF ALL SCHOOL BOARDS SERVING ENCINITAS

Sometime within the next two months the Encinitas City Council will consider adoption of a Redevelopment Plan. This plan will run for FORTY YEARS and, will divert about $300 million in local taxes from the schools to redevelopment projects like a new city hall. This is based on the most recent public estimate of the City Staff, The plan is structured as a foot-in-the-door proposition. In the first year redevelopment gets 4.7% of the school money. In the 40th year it takes 86%!

Superintendent Lynstrom, Encinitas Union School District, has appeared at at least two public meetings saying that he and the other two superintendents support the Plan. He has not explained why. It is known that the school districts and the City Staff are negotiating in closed meetings. What is being negotiated has not been revealed to the public. Presumably, it has not been revealed to the respective school boards.

Why is this important? Because similar negotiations in San Marcos, conducted by the by the same redevelopment consultants that represent our City, have resulted in Letters of Agreement that do not provide the safeguards that they should provide.

How do the school administrators think that they can benefit by giving up tax money to redevelopment? In San Marcos one half of the money will be given back to the schools in the form of a building fund which they can spend as they please. Or, using technicalities of the state redevelopment law, this income can be used to float bond issues. These bonds do not require the public vote of approval that would normally be needed.

More important, the schools seem to believe that this money will be total profit. Under present law they have the right to go to the state and demand that the total diverted tax money be replaced by the state under Average Daily Attendence laws (ADA). These laws require the state to provide additional money to local school districts when it is needed to ensure that equal dollars are available for the education of each individual student statewide. The diversion of local taxes to redevelopment would artificially create such a shortage in our schools. The state is expected to replace this money from funds designated for the welfare of the individual students

The technicality that makes this possible has been created by the legislature. The redevelopment consultant says this is the law and that the "State" wants us to do it this way. This is not necessarily true. The legislative process often results is conflicting laws passed by differing majorities. When the conflicts become too obvious, further legislative or administrative action is taken to correct them or it is done by the courts.

Our boards should carefully examine for themselves just how dependable this source of replacement funds actually is. They should not rely on information provided by the City's redevelopment consultant. As an interested citizen, I have been told by Laura Bruno (916-322-1770) of the State Department of Education that, in her opinion, it is not dependable at all. She states that budget shortfalls have already made it necessary to reduce the dollars now provided below the statuatory objectives. She also stated that the Legislature is showing an increasing concern about the problem of local diversion of funds from the schools to other purposes. A representative of the County Department of Education confirms this - stating that ADA funding "depends on the yearly state budget and they had better be careful to have a firm contractual agreement to get their taxes back if the state makes a change".

The latter seems to be the option that the San Marcos school board has attempted. Their "Agreement for Cooperation" with the redevelopment agency contains a section entitled "Change in Funding" (copy attached). Unfortunately, this section avoids any direct reference to ADA funding. It is worded in such a complex way that it impossible for a layman to determine what its legal effect really is. Our school boards should seek the advice of their own lawyers to ensure that they have a watertight agreement.

The San Marcos agreement has a further, and this time clearly stated, limitation in paragraph (d)(2). This provides that, if the agency has already floated bonds in anticipation of future diverted taxes, these taxes continue to go to the agency regardless of the needs of the schools. Such bonds are the primary means of financing redevelopment. Therefore, if ADA funds should be reduced or cut off in the future, the schools can expect to have to wait 15 to 20 years to get any relief.

The agreement contains no provisions for determining whether emergency needs of the schools or contractual obligations already made by the agency would have precedence. The same is true of city loans to the agency. Such loans are a common practice in the initial funding of redevelopment projects. The Escondido agency owes the city about $18 million and the Center City Redevelopment in San Diego owes the city about $32 million. We do not know whether this technique will be used here because the agency has resisted all requests for a detailed long range funding plan.

On the other side of the coin, there is no provision for what happens if Prop 13 is recinded. Efforts are already underway to do this. Unless provisions are made otherwise, more millions of dollars that would go to the schools will go to redevelopment. This could be a whole new ball game. It is certain that ADA funds could not make up this kind of money.

These matters should be clearly provided for in the agreements and approved by lawyers representing the school boards. They should be thoroughly understood by the school boards and explained to the public. This is not a matter of mistrusting the good intentions of the City Council. Once the diverted taxes are mortgaged 15 to 20 years into the future and spent or legally obligated by contract, there is no legal way for the council to compensate the schools for money lost through changes at the state level. GOOD INTENTIONS WILL NOT SERVE.

It is also essential that the final agreements be completed before the City Council takes final action on redevelopment. It is a peculiarity of state redevelopment law that, once the redevelopment plan is put in effect by city law, the schools lose all legal right to negotiate further. Their negotiating leverage will be gone. Sixty DAYS later they will lose all rights of appeal to the courts - for the next FORTY YEARS. Citizen's groups, such as parents, will be similiarly blocked from taking legal action.

THE TIME TO ACT IS NOW. PROTECT THE EDUCATION OF YOUR CHILDREN AND THEIR CHILDREN - FORTY YEARS.

Robert Brent
436-1876
748 N. Hwy 101
Encinitas, CA
92024

Attached: San Marcos Unified School District
Draft Agreement p.6

Section 2.05. Change in Funding. If by virtue of the tax allocation provisions of Health and Safety Code Section 33670, the District loses revenue which it otherwise would have received if the Redevelopment Plan had not been adopted, whether through a change, modification or amendment to the method of providing financial support of school districts in the State of California or any other reason, then the Agency shall hold harmless District from any revenue diversion or loss resulting from existence of such tax increment financing by reimbursing District the full amount of any such revenue loss or diversion, subject to and modified by the following:

(a) The obligation of the Agency to reimburse the District shall apply only after receipt by the Agency of Notice of Revenue Loss, pursuant to Section 2.07;

(b) The obligation of the Agency to reimburse the District shall not be applicable to the extent that the District has specific legislative authority without voter approval to replace such revenue loss; and

(c) The Agency and District, after joint review of the change in funding pursuant to this section, may determine it is in their respective best interests to authorize Agency to continue to receive all funds pursuant to Section 2.01; and

(d) From and after receipt of Notice of Revenue Loss pursuant to Section 2.07, General District Tax Revenues shall be allocated to District; provided, however:

(1) The obligation of the Agency to allocate General District Tax Revenues to the District shall be limited to the amount of General District Tax Revenues available to the Agency, pursuant to subsection (a) of Section 2.01 or to the amount of revenue loss suffered by District, whichever is lesser;

(2) The obligation to allocate General District Tax Revenues shall be subordinate to any bonded obligations authorized pursuant to Section 2.08; and

(3) To the extent that General District Tax Revenues allocated to the District are insufficient to fully reimburse the District pursuant to this Agreement, the District shall have an unsecured right to be reimbursed by the Agency out of other available funds accruing to Project Area No. 3, including, but not limited to, unexpended bond sale proceeds, other tax revenues allocated to the Agency pursuant to Health and Safety Code Section 33670(b), and land sales proceeds; and

(4) Funds to be allocated to District shall be charged prorata between the Agency and DCPF shares of the General District Tax Revenues.

7/22/89

To: PAC
From: Robert Brent, PAC Sub-Group II

Subject: Conclusion of PAC Review of Proposed Redevelopment Plan.

1. In Nov. 1988 the Council gave the PAC a broad mandate to study and make recommendations on the Proposed Redevelopment Plan. The PAC and its Sub-Groups, all unpaid volunteers, have worked long, hard, and very conscientiously to carry out this mandate. The members of the PAC are now the best equipped members of the community as a source of advice to the Council and the general population on Redevelopment.

2. Now that the PAC has nearly completed its work there seems to be a move afoot to back away from its recommendations. There have been statements hinting that it has exceeded it mandate and the Agency has published a schedule for final consideration of the PAC's revisions and recommendations that does not include any joint meetings with the PAC. Presumably the advice of the PAC is to be filtered through the Staff rather than being provided directly to the Agency

3. I put in a lot of work as a member of Sub-Group II and I do not want to see it wasted. I suggest that the PAC take the following steps by means of formal resolutions:

a. Request the Agency to change the meetings currently scheduled to "Consider PAC Recomendations" to joint meetings. (Members of the PAC would act as a resource for comment and clarification but would not have a right to vote.)

b. PAC submit its recommended revisions of the Proposed Plan to the Agency as a package of indivdual recommendations. These revisions were each arrived at by majority vote and stand on their own. It is not appropriate to make a recomendation on approval or disapproval of the Plan itself at this time since it is not yet finalized.

c. If the members of the PAC desire to address the issue - a recommendation on whether or not to continue with the redevelopment process could be included.

d. Request the Agency to schedule study time and a PAC meeting for consideration and approval or disapproval of the final Plan after it is finalized by the Agency. Submission of the final PLan to the PAC at this point is required by Section 33347.5 of the Redevelopment Law.

e. Request that the Agency to provide to the PAC and to the public during the above period the following information (prepared on a "best estimate" basis). This information is essential to any responsible analysis of the effects of the final Plan;

1) The Agency's "Report to the Council".
2) A definitive five year "Work Project Plan" - a prioritized list of the actual "work projects" the Agency is going to do over the first five years.
3) A "Work Project List" - a list of actual "work projects" that are planned over the life of the Redevelopment Project
4) A definitive five year "Financial Plan"
5) The above plans to include the effects of the "Letters of Agreement" that are being negotiated with the various taxing agencies.
6) The above negotiations to be completed before the PAC gives final consideration to the Plan.

Sincerely,

Bob Brent

Robert Brent
436-1876 ENCINITAS
487-5753 Rancho Bernardo

Proposed redevelopment is not local control

The time has definitely come. "Local" control is out of control. City staff and the council have finally clearly shown their true colors.

Smitten by the voters' rejection of the $25 million park bond, the council is now moving hastily and relentlessly to seize for itself the power of a redevelopment agency — a power that will allow it to expend $21 million on a civic center, $79 million on freeway interchanges and other street modifications, $25 million on parks — or any other amount on whatever project they choose without a two-thirds citizen vote, without a one-half citizen vote, with no citizen vote!

With virtually no restraints on how they spend our money, the next move is to get as much money as they can. To do so they have included 1,995 acres of our city into their project area. By declaring homes and businesses within this area "blighted," council members can divert to themselves approximately $436 million of future property taxes that would normally go to other entities such as schools and fire districts.

The only significant restriction on the agency is that it spend 20 percent of the funds on low-income housing, and that 30 percent of housing developed within the project area must be low-income housing. Their future plans in regards to this matter are currently undefined.

California law clearly recognizes the extreme impacts of 40-year plans and requires the city to form a Project Area Committee of area residents and business owners, who review and make recommendations to the proposed plan. The Encinitas Project Area Committee was created and began formally meeting in July 1988.

The PAC and two additional citizen subgroups held numerous public meetings over the course of approximately 15 months of intensive examination of the plan and of redevelopment law. After hundreds of hours of review, research and public comments, the committee unanimously rejected the original plan sought by staff. Members recommended the adoption of an improved, very carefully revised plan that accurately addressed and embodied the concerns of the citizens of Encinitas. The primary revisions

- A reduction in the size of the project area, and elimination of the inclusion of all proposed residential properties.
- A requirement that the agency obtain voter approval for any projects that exceed $3 million.
- A requirement that a citizen advisory committee be continued throughout the life of the plan, rather than being disbanded after three years.
- Imposition of restrictions to prevent administrative abuse of eminent domain, and to discourage the expansion of commercial uses into residential areas.

On Nov. 14, in one of the most striking displays of greed, egocentricity and thoughtlessness that I have witnessed in over 50 years, city staff recommended the City Council (which sits as the Redevelopment Agency) reject all citizen input and revisions and adopt the original plan! Even more outrageous and alarming is the council is eagerly poised to do exactly that!

The administration is relying on citizen apathy. Please do not allow this to happen. If you only want to participate in local government once in your lifetime, make it now! Demand, at the very least, that the project area be reduced to appropriate commercial zone only, that agency powers be limited, and that major projects be voted on by citizens. Demand the administration cease circumventing citizen input and rights. Demand that citizens be consulted, listened to, and respected!

It's now or never. The future removal of increasingly arrogant and abusive council members and staff from office will not change the existence of a detrimental plan once it is adopted.

Ben Wright
Encinitas

A new constitution

As we end the decade of the 1980s, it is interesting to speculate as to what heading the historians will give the period. Perhaps "The Decade of Greed" would be appropriate.

The greed of politicians and business. A decade in which the rich got richer and the poor got poorer. A decade in which the middle class got "no new taxes," because to tax them you would have to tell them why! The why is the looting of the Department of Housing and Urban Development, the savings and loans fiasco and defense budgets.

To keep them happy we pass the burden onto future generations. The presidential saying should be "Read my lips, just more debt."

Perhaps the politicians of the 1990s should read the Iroquois Constitution where Dekanawedah wrote:

" . . . with endless patience you shall carry out your duty . . . with compassion for your people . . . in all of your official acts, self-interest shall be cast aside, you shall look and listen to the welfare of the whole people, and always in view, not only the present but the coming generations — the unborn of the future nation."

Our Founding Fathers read this Constitution of the Iroquois Nation. Perhaps, it should be part of the oath for political office.

E.T. Jones
Encinitas

ENCINITAS
COAST
DISPATCH
DEC. 1, 1989

December 5, 1989

Senate Committee on Local Government
Marian Bergeson, Chairman

Gentlemen:

I would like to express my opinion on the "Redevelopment Mania" sweeping the State (California) now and in the past few years.

The City of South El Monte, California is now in the throughs of stagnation because of the misuse of Government Power in an attempt to take good industrial land from the owners, at a fraction of its worth, redevelope this property, which does not need redeveloping, thereby creating blight, more vacancies and costly white elephants which must be leased at exorbitant rates to pay a very small return on the money spent in building these so called improvements.

These ill-concieved projects cause disruption in an otherwise busy and productive area. The properties are wrongfully tagged as blighted, contaminated, etc. The projects are managed by a "crew" of slick lawyers who have no concern for the community. Their only concern if for their own greed. Their interest is in selling of bonds for which their fees are 1% to 1½% of the bonds they sell.

When the promoters have cleaned up, they leave town and leave the financial wreckage to the inexperienced city council to salvage what they can and figure some way to pay for the long-term bonds and interest.... sales tax increase? Most of this increase goes with the promoters for the next 20 to 30 years. By this time, the properties are old properties and ready for more "Redevelopment".

These lawyers are usually dealing with inexperienced lay people who thought they were going to build a new city. Most of these people sincerely want to improve their city, but have no knowledge of how, and act on the advice of the unscrupulous lawyers.

What "Redevelopment" is, is welfare for the very wealthy and loss of jobs, property and income for most of the local people. If you will look closely, you will see that the taking of private property "for the good of the public" is in reality just the method Fidel Castro used to save Cuba.

I strongly feel than an on the scene investigation of the South El Monte situation would answer your questions and perhaps open your eyes to the true corruption and harm caused by "Redevelopment" in many cases.

Sincerely,

James R. Andruss

James R. Andruss
10002 Rush Street
South El Monte, CA

Sarah E. Foster
777 Terrace forty-nine
Los Angeles, CA 90042
(213) 259-9580

December 7, 1989

Statement before the Senate Committee on Local Government

SUBJECT: Redeveloping California:
Finding the Legislative Agenda for the 1990s

First, I would like to thank the Hon. Marian Bergeson for holding this interim hearing and the staff of the Local Government Committee for its highly informative report. I was frankly quite flattered that you cite my article on redevelopment that appeared in Reason magazine--that is very gratifying. Perhaps a few additional comments would not be out of line, and I thank you for the opportunity to place these in the permanent record.

On page one, paragraph two of the Report, certain assertions are made which should not go unchallenged. There is a claim that "local officials credit redevelopment for almost 30,000 jobs." Even if true, it is fair to ask what kind of jobs were created? What percentage are government related? If so, then at least 450 such jobs are right here in this building--that's the bureaucracy of the Los Angeles Community Redevelopment Agency. Is that the kind of jobs you're talking about?

Then there is the assertion that because of redevelopment "tens of thousands of low income households live in better conditions." Better than what? On what are the figures based? Redevelopment has indeed "changed the way California looks." The small, albeit often shabby, hotels are gone. Gone, too are the neighborhoods--frequently ethnic in character--in which people of modest means lived. In the street below us men and women who now have no home are camping on the sidewalk. That's "better conditions?" A useful exercise would be to tally the number of housing units destroyed by redevelopment--in all cities in California and across the country--and the number of people who have no place to live. I submit, there would be a correlation.

Directly related to this are the following articles (which I am submitting for the record) by Linda Morrison (neé Paustian), a resident of Philadelphia, who has been fighting the construction of a convention center smack in the middle of the city. She is an economic analyst and her findings a highly relevant here; because in questioning the wisdom of building the Reading Convention Center, she attacked the so-called multiplier effect: that

tion Center, she attacked the so-called multiplier effect: that is what lies beneath the assertions in paragraph two of the Report, as it does in all arguments favoring redevelopment.

The multiplier effect holds that if a government entity sinks x number of dollars in something like a redevelopment project area, even larger sums of money in wages and taxes will be generated as if by magic. And it holds that even if a redevelopment area (or project like a convention center) loses money and displaces existing and businesses, the city economy will benefit overall and any deficit will be made up by increases in jobs and tax revenues. Ms. Paustian refers to the multiplier effect as a "popular myth", and to support her charge quotes Princeton economics professor Edwin Mills, who is also editor of the Journal of Urban Economics, who had told her:

> "The right question to ask is does this project [convention center, shopping mall, civic center, you name it] yield larger benefits to the residents of Philadelphia and Pennsylvania [or Los Angeles, Sacramento, etc.] than would any other use of the money, including tax and debt reduction... Most economists no longer attach validity to multipliers, because experience and careful statistical analysis have cast doubts that they are of substantial magnitude...There is not a shred of evidence that local employment is stimulated by large government spending."

The Legislative Analyst of the legislature would seem to be in agreement with Dr. Mills. In addition to the articles by Ms. Paustian I am submitting several by Dr. Mills for the record. Although both Ms. Paustian and Dr. Mills are responding to a situation three thousand miles away, their arguments are applicable anywhere.

I believe it is time to examine closely the underpinnings of arguments that are used to justify redevelopment, such as the multiplier effect. Certainly, there are huge civic centers and tall skyscrapers--but what was the real cost? And what is so wonderful about having these structures? What would have been built had there been no subsidized "redevelopment." We'll never know because it was never allowed to happen--as Ms. Paustian stresses in her articles. Instead, the residents of several hundred communities are stuck with huge debts for projects they never asked for and didn't want in the first place--debts which will hamper any really desirable development.

We must ask if it is desirable to encourage the construction of huge hotels and convention centers in towns like Modesto and Visalia which place an ever-larger debt burden on the taxpayers

of those communities. Shouldn't legislation be passed to make it easier for concerned citizens to oppose this kind of folly?

The response to the runaway growth we see in California, caused in large part by the various subsidies (euphmistically described as "incentives") that are part of the redevelopment package, has been the slow-growth and no-growth movements. The Report is deficient in that it does not make reference to the these movements which reflect the enormous concerns of citizens seeking to slow down a process over which they have no control, one which can be directly attributed to redevelopment.

Unfortunately, those in the slow/no growth movements all too often seek to achieve their ends by saddling residents in a community with a bunch of restrictive ordinances. Would it not be far better if these same residents could attack the cause of the problem itself, through easier referendum and litigation procedures, and stronger PACs? To preserve a modicum of what is generally referred to as "quality of life," it is imperative that the trend continue towards weakening redevelopment agencies and empowering the citizens to oppose them.

Legislation to achieve this is the kind we need in the 1990s.

Convention center

The numbers don't add up

The Philadelphia Inquirer
Op-ed
Sunday, March 8, 1987
Page 7-E

By Edwin S. Mills

Proponents of the proposed convention center at Reading Terminal claim over and over that the center will mean "$1.5 billion in new revenue and 10,000 new jobs for the city." Most citizens, unfamiliar with financial and economic analysis, cannot challenge these projections and are intimidated by the economic and financial terminology, the columns of figures and volumes of paper. Citizens are tempted to believe that these figures are the result of universally employed capital-budgeting techniques and generally accepted methods of economic analysis.

In fact, the "$1.5 billion in new revenues" is the result of a *fundamentally flawed* methodology not recommended by any finance or business textbook and not acceptable to any private investor. And the "10,000-new-jobs"prediction is the result of an economic analysis that no sensible public finance economist would endorse.

The fundamental flaw of the Philadelphia Industrial Development Corporation (PIDC) and the Goode administration revenue projections is that they do not "discount" future benefits and costs to account for the time value of money.

It is standard practice, in both private business and in the public sector, to compare only the "discounted" or "net present value" of future costs and benefits when evaluating a project. Discounting is a mathematical procedure that equates the value of money received or paid at different time periods as if they were all received today and similarly equates costs incurred at different time periods as if they were all incurred today.

A dollar received today is worth more than a dollar to be received in one year for two reasons: First, if I have $1 in my hand there is no risk as to whether I'll actually receive the dollar in one year and, second, money I have now has investment opportunities. It can be invested to earn more money or used to pay off debts.

For example: $5,000 promised five years from now is worth only $3,736.50 today (at a 6 percent discount rate). Why? Because that is what $3,736.50 would become if left for five years in a savings account earning 6 percent interest.

Similarly, investors "discount" future costs to account for the cost of borrowing — if one borrows $100 now, one must repay a larger amount in the future (the amount borrowed, plus interest).

Put another way, if we put $500 million in a bank to earn interest, would this interest be more than the convention center benefits? If so, then we should put the money in a bank. If not, then we should go ahead with the convention center. We use discounting to make this comparison.

No private investor would accept a presentation of the finances of a capital project such as PIDC and the Goode adminstration have presented for the proposed convention center.

When properly discounted, a comparison of the future costs and benefits show a net revenue *loss* of millions of dollars. So, why didn't PIDC and the administration use discounting? I don't know the answer to that. I do know that the failure to discount makes the convention center's benefit appear to be larger relative to its costs than they are, and that the proper discounting procedures are known to every undergraduate student of economics or business.

Another serious flaw in the PIDC and administration analysis is the job projections resulting from from the "multiplier" or "ripple" effect. One often-heard rationale for city governments investing in these kinds of projects is that they produce ripple effects throughout the economy that cannot be captured by private businesses. The multiple theory says that if government spends $1 to employ someone (say in a convention center), that person spends the dollar, creating additional production and employment, which creates more production and employment, and so on.

The multiplier theory may have limited relevance in very special circumstances. There is no theoretical or empirical reason to believe that it has any relevance to state and local government spending.

Unlike the federal government, the city government cannot run deficits financed by creating money; the city government can finance a project only by borrowing or raising taxes. Either means reduces spending by people whose money is borrowed or taxed.

When the city takes money from *some* individuals in order to subsidize the hospitality businesses of *other* individuals, there is a negative effect on the individuals from whom money is taken. There is a negative-multiplier effect that cancels out any gains from the positive-multiplier effect as residents reduce their spending because of the taxes they must pay to finance the convention center or its bonds. Worse yet, they may move to Bucks County and relocate their businesses on Route 202 because taxes are lower there.

Finally, focusing only on the calculated multiplier effect ignores what would be done with this money if left in the hands of Philadelphia's citizens. If this money were not invested in a convention center, but left instead in the pockets of Philadelphia taxpayers, they would not bury it in the ground, but would invest it in Colonial Penn Insurance Company stock, or deposit it in Philadelphia National Bank or use it to buy Tastykake or to renovate an old building at 12th and Race. All these possible uses would have as beneficial multiplier effects as those from the convention center.

The result of the above two errors is that the PIDC and adminstration job and tax benefit projections are so exaggerated that a convention center that will be in reality an economic burden on the city and its taxpayers is made to look like a boon instead. It is difficult for me to imagine that anyone could claim with a straight face that a convention center is the best use of $470 million of Philadelphia residents' money.

(Edwin S. Mills is a professor of economics at Princeton University.)

(and editor of the Journal of Urban Ec

Princeton University Department of Economics
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April 21, 1986

I have read "An Evaluation of the Needs for a New Philadelphia Convention Center and Hotel complex", by Edmond Shils and Melinda Schorr, dated April 2, 1986.

Most of this report is merely warmed over data and calculations from earlier reports of Convention Center advocates. What makes this report persuasive to unsuspecting laymen is the magical multipliers it presents from Convention Center construction and operation. In this report, they are assumed to be 1.7 for the City and 2.6 for the metropolitan area. That means that every dollar spent for construction or operation of the Center would generate 1.7 dollars of income in the City and 2.6 dollars of income in the metropolitan area.

Wouldn't it be wonderful if it were true? All the problems of poverty and unemployment in the city and metropolitan area could be solved if only the government would spend enough. Why not build a Convention Center on every corner and the city metropolitan area would be wealthly beyond dreams? What nonsense! Every dollar state and city governments spend on the Convention Center must be extracted from citizens by taxes. That is true both of spending financed directly by taxes and also of spending financed by bonds. In the latter case, debt service must be financed by taxes. These higher taxes depress city, metropolitan area and state economic activity. There is not a shred evidence that state and local government spending can stimulate economic activity, once the effects of taxes needed to finance the spending are taken into account.

Some amendment to the above would be required if much of the investment in the Convention Center were to be financed by revenues raised by the Center itself. The report says that the State of New York does not expect to get a nickel of return from its complete financing of the Javits Center in New York City. That is an equally good assumption for the Philadelphia Center.

This multiplier theory of stimulation of the private economy by government spending is borrowed from Keynesian theory of a national economy. At the national level, multiplier theory may have limited relevance in very special circumstances. There is no theoretical or empirical reason to believe that it has any relevance to state and local government spending in the Philadelphia area.

April 21, 1986

The fact is that waste of taxpayers money is waste of taxpayers money. The Convention Center should be built only if careful benefit-cost studies show benefits, excluding magical multiplier calculations, in excess of costs. If benefits did exceed costs, then advocates would need to explain to us why private money, is not forthcoming to build the Center. The silence is deafening.

I hope you will feel free to use this letter in the debate over the Convention Center.

Sincerely,

Edwin S. Mills
Professor of Economics

ESM:nm

(and editor of the Journal of Urban Economics)

Analyzing Indirect Benefits of the Philadelphia Convention Center

Edwin S. Mills
Princeton University

These brief notes comment on techniques for estimating indirect benefits of the proposed Philadelphia Convention Center. The notes are not based on deep knowledge of particulars about the proposed Center. Large numbers of proposed urban projects--convention centers, stadiums, etc.--are justified in part by estimated indirect benefits. Techniques of analysis in estimating such benefits are similar for most such proposals. In many cases, the desirability of the project depends crucially on substantial external benefits. Indeed, if the direct benefits justified the project, private groups could cover their capital and other costs with revenues that would be generated by the project. Thus, it is the claim that indirect benefits, which cannot be captured by private investors who might finance the project, are substantial that justifies city government investment in the project.

Indirect benefits are estimated by use of "multipliers". If government spends $1 to employ someone (say in a convention center), that person spends the dollar, which creates additional production and hence employment. That second round effect in turn creates more production and employment. The procedure theoretically continues to an indefinite number of indirect effects, and the multiplier is the sum of all such effects.

Such mulitpliers have long been calculated for the national economy in response to proposed national government spending to stimulate employment. Most economists no longer attach much validity to such calculations because experience and careful statistical analysis have cast doubts in belief that they are of substantial magnitude. Such doubts are much more important at a local level than at the national level. Local multiplier analysis basically has to assume that a local government can stimulate the local economy by fiscal policy and its multiplier effects. Almost no local public finance economist believes that is possible.

More specifically, I raise the following issues.

1. The local multiplier effect is jobs created in the city per job directly created by the government spending. The city calculations assume that the multiplier is 3, that is $3 worth of wages will be generated per $1 spent on direct employment for the project (in this case, the convention center and a related hotel). No analysis or evidence indicates that the additional demand so generated will result in net employment increases. The result may be merely to increase wages of already employed people. Whether unemployed people are put to work by the multiplier effects depends on how many unemployed there are, where they are located, what skills they have and why they are unemployed.

2. No analysis or evidence indicates that any indirect jobs created will be located in the city. Some may be, but some certainly will not be.

3. No evidence or analysis indicates that any new jobs created, in the city or elsewhere, will be net new jobs. Unlike the federal government,

the city government cannot run deficits financed by creating money. The city government can finance a project only by borrowing or raising taxes. Either means reduces spending by people whose money is borrowed or taxed. Such reduced spending is an offset to the new spending counted in computing multiplier effects.

4. No evidence or analysis indicates that net new jobs will be held by previous city residents, even if net new jobs located in the city are created. Such jobs may be taken by workers who move to the city for the purpose. To that extent, multiplier effects will have no effect on city unemployment.

Basically, the local multiplier analysis is founded on an inappropriate analogy between effects of federal and local government spending. If there is no local government money in the project, there is no multiplier effect. The entire concept is inappropriate. If there is local government money in the project, it must come either from borrowing or taxes. There is not a shred of evidence that local employment is stimulated by large local government spending, taxes, or debts.

Finally, the benefit criterion employed by cities in such analysis is faulty. Great weight is placed on the issue whether city government spending will "pay" for itself in increased tax receipts. That is irrelevant to a proper analysis of local government spending. The right question to ask is: does this project yield larger benefits to the residents of Philadelphia than would any other use of the money, including tax and debt reduction? The city has produced not one shred of evidence or analysis that a convention center would be more beneficial to Phildelphia residents than better schools, a better criminal justice system, reduced taxes or any other use of the money. It is difficult for me to imagine that anyone could claim with a straight face that a convention center is the best use of some $400 million of Philadelphia residents' money.

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Welcat

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Jeffrey Barg reflects on summer —page 3

Convention center economics: Now you see it...

By [illegible]

A young hoodlum heaves a brick through the window of a baker's shop. The shopkeeper runs out, but the boy is gone. A crowd gathers. Several of the bystanders remind each other and the baker that the misfortune has its bright side: It will make business for some glassmaker.

A new plate glass window costs $250. The glassmaker now has $250 more to spend with other merchants, and these merchants will spend the money with others, and so on. The smashed window will go on providing money and employment in ever-widening circles. If the crowd drew the obvious conclusion, the little hoodlum who threw the brick, far from being a public menace, was a public benefactor.

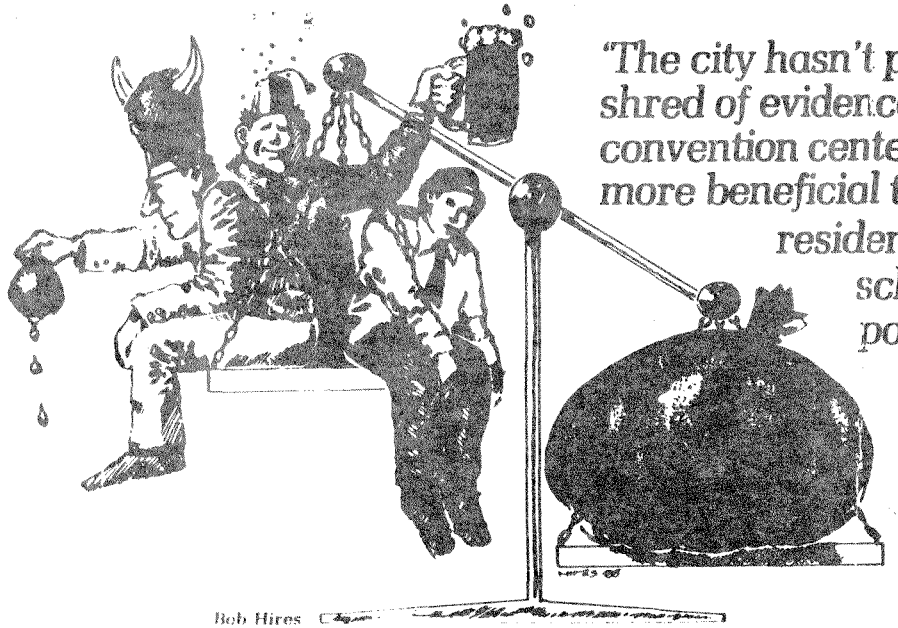
The crowd is right in its first conclusion. This little act of vandalism will mean more business for some glassmaker. But the shopkeeper will be out $250 that he was planning to spend for a new suit.

Replacing the window means no suit. Instead of having both a new suit and a window, he now has only a window. If we think of him as part of the community, the community has lost a new suit that might otherwise have come into being, and is now poorer than it was before.

The glassmaker's gain is merely the tailor's loss. No new "employment" has been added. The people in the crowd were thinking only of two parties to the transaction, the baker and the glassmaker. They had forgotten the potential third party involved, the tailor.

They forgot him precisely because he will never enter the scene. They will see the new window in the next day or two. They will never see the new suit, because it will never [illegible].

This little parable was written in the 1830s by French economist Frederic Bastiat. We have yet to learn the lesson.



Bob Hires

'The city hasn't produced one shred of evidence that a convention center would be more beneficial to Philadelphia residents than better schools, more police protection or reduced taxes.'

Which brings us to the point of this article. Why is Philadelphia planning on building a convention center? Because:

- By taking advantage of a loophole in the Federal tax code, the city could save money building a convention center by using a lease-back arrangement.
- There is a market for a convention center this size.
- Building a convention center will increase jobs for Philadelphians.
- Building a convention center will increase tax revenues for the city of Philadelphia.
- We need to improve the "blighted" area around Reading Terminal.

None of these "facts" has been publicly examined, only assumed to be true. No articles

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Convention Center

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have challenged their accuracy, no television talk shows have discussed the premises. No editorials have questioned the basic arguments.

Mike Masch, director of economic analysis for City Council's technical staff, says, "Very few people know anything about economic analysis. If a bunch of people with degrees come together and say you will create 10,000 jobs by building a convention center, non-economists will believe them.

"People who claim to be experts came before David Brenner, the city's commerce director, and told him these things. He doesn't have the expertise to refute their arguments."

Why haven't we questioned the "facts"? It's difficult to refute the finely-tuned arguments of special interests. Are we making the error of looking only at the immediate effect of a policy on some special group? Do we lack the patience to trace the long run *effects* of the policy on everyone?

If politicians, civil servants or politically-connected businesses take taxpayers' money through embezzlement or bribes to use for their own ends, journalists investigate charges of fraud and corruption. Yet if the same people take money in the name of the public good, editorial writers laud their public spiritedness.

Philadelphia is about to tear up a neighborhood, uproot businesses employing almost 2,000 people and spend hundreds of millions of taxpayers' dollars. What if the "facts" cited above are untrue? What if there is no net benefit, and the entire community is left poorer?

One of the original rationalizations for building the center was that private developers would build a large portion of the center, use it as a tax shelter and save millions of dollars in federal taxes, thereby relieving local taxpayers of some of the burden of the center. (These local taxpayers also pay federal taxes, but this fact was ignored.)

> *'The study was commissioned by the Convention & Visitors' Bureau, so naturally you won't find any criticism of the bureau in the study.'*

In May 1983, however, Congressman J.J. Pickle (D-Texas) introduced a bill in Congress that would end that kind of tax shelter. For the city to get an exemption from that bill, it was thought that the city would have to commit itself in 1983 to both a site and a developer. So, those in charge of making the decisions hurried.

"Well, we don't have to hurry anymore. Governor Thornburgh has insisted the convention center be publicly-built and publicly-owned, so there is no more reason to worry about private developers qualifying for a tax shelter under the Pickle bill.

We now have some time to carefully examine the remaining promises on which the city and the state will spend millions and millions of dollars over the next 30 years.

A variety of proposed cost estimates have been issued by the city administration throughout the history of this project. At an 11 hour hearing in June 1984, City Council members voiced dissatisfaction with the latest financing plan, calling it incomplete. "We have to watch this thing," said Councilman John Street. "If there's one thing that has the potential to bankrupt this city, it's this convention center." In September 1984, when City Council reluctantly authorized the center, Councilman Lucien Blackwell said he still believed that no one knew what the center's exact cost would be.

Michael Masch of the City Council technical staff notes that the latest plan (submitted in August, 1984) is an improvement over previous ones, because it accounts for costs of acquiring the Reading train shed, for the city's costs in hiring consultants and financing business relocation benefits—costs which previously had not been considered.

In this plan, costs to the City were listed as: land and building acquisition costs, relocation costs, capitalized interest costs, city consulting costs, bond issuance costs and a lease service reserve. This latest financing plan—still cited by proponents of the project—estimated the benefits of the convention center project as 9,996 new jobs and the present value of increases in tax revenues at $231 million.

But even this latest revised plan leaves out a number of significant cost items which must be accounted for to arrive at a truly realistic estimate of city convention center costs, according to Masch.

Costs that could have a tremendous effect on any cost-benefit analysis and which have been left out of any calculations are:

* City capital budget costs to upgrade (for entire public infrastructure within several blocks of the center: sewers, roads, sidewalks, street lights, etc., caused by the building of a mammoth

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Convention center

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new center in an old section of Center City.

* Wage, real estate, sales and mercantile taxes now paid by the property owners, businesses and customers in the five blocks to be demolished to make way for the center (even if only 30% of the businesses fail because of relocation.) Thirty years' worth of these lost revenues have not been factored into the cost/benefit calculations.

* Real estate taxes never to be paid by the Convention Center in the six-block area it will occupy for 30 years and thereafter.

* Real estate taxes lost during the years of condemnation, acquisition, demolition and construction and then abated for the hotel during the first five years of use.

* Real estate taxes lost through Ordinance #19-1303 (3), allowing tax-abatement for five years to relocated businesses.

* The *real* costs of condemnation, litigation, acquisition, relocation of the many businesses—costs currently underestimated by the Redevelopment Authority and the Reading Company.

* The costs of planning for and accommodating the massive disruption of both construction and Convention Center operations on the surrounding streets and blocks.

* *Realistic operating losses.*

Convention centers across the United States of over 300,000 square feet generally lose money. In 1983, for example, the Las Vegas convention center reported revenues of $22.7 million and expenditures of $58.1 million. Washington's convention center had revenues of $1.8 million and expenses of $6.2 million. Convention centers in Milwaukee, Detroit, St. Louis and New Orleans similarly reported expenses which far overshot income.

There is no indication whatsoever that Philadelphia's operation would be more efficient. Net operating deficits must be included when considering overall costs and benefits to the community. (The city government claims it will lose only 14% operating its center.)

Using the 3% hotel tax to offset convention center costs is questionable. Use of the tax is currently legally restricted exclusively to expenditures related to convention and tourism promotion on the city's behalf, and could not be used to offset increased city costs related to the center's financing or its operations.

Administration officials counter that it might be possible to change the law governing the tax so that it could be utilized to help the city pay off the debt service on the new convention center. If this is done, and the tax is increased to 3%, according to Masch, the tax is not projected to raise enough money to meet the convention center's expected yearly debt service needs until 1997 (and operating losses are not even considered here). This would leave no other source for convention and tourism promotion except the city's operating budget. Yet increased hotel taxes are consistently listed as a "benefit" of the new convention center.

Is there a market for a mammoth center?

In May 1982 a convention-center steering committee was formed, and the City hired a consultant. Philadelphia magazine reported that Pannell Kerr Forster was chosen to do the study, even though the firm had previously done only two similar studies (and one of those had been deemed unsatisfactory by the client). Laventhol & Horwath, a consulting firm generally considered to be the convention industry experts and based right here in Center City, was not asked to perform the study.

Pannell Kerr Forster was given three "scenarios" to investigate by the committee:

(1) Renovate and upgrade the existing 380,000 square-foot Civic Center and add a stop on the high-speed rail line.

(2) Build a new large convention center with 300,000 square feet of single level exhibit space and approximately 90,000 square feet of multi-purpose meeting room space.

(3) Build a mid-sized convention center of 150,000 square feet.

It's interesting to note that, since the city was supposedly objectively considering options to benefit the local economy and the city of Philadelphia, that two options are missing: 1) do nothing or 2) sell the Civic Center.

When reading the study, it seems that the conclusion of the report—build a new, mammoth convention center on Reading Terminal property using taxpayer funds—was a "given" and the study was done to justify the "right" conclusion. Just consider who initiated the study: the Convention & Visitors Bureau, the City Planning Commission and the convention

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center steering committee, which is made up of city government officials and members of large, politically-connected Center City business interests. That the study reached the conclusion that it did should come as no surprise to anyone.

Pannell Kerr Forster operated on the premise that the potential market for the type of facility that should be considered for Philadelphia is "demonstrably the large national groups and associations that require sizable exhibit and meeting space." Consequently, PKF developed a survey and surveyed only associations that had 1,000 or more members.

According to *Meetings and Conventions*, 60% of associations they list have 1,000 or more members. 40% do not. PKF ignored this 40% in its study, which is another indication that the study was done to justify a large municipal convention center—the kind that could hold a national presidential nominating convention, for example.

Any statistics or market research professional can tell you how a question is asked is just as important as what question is asked. Unfortunately, not much can be said in that regard about PKF's survey, because the actual questionnaire was not attached to the study available to the public.

The survey was designed, among other things, to determine how Philadelphia was perceived compared to other cities which compete for similar sizes and types of meetings. A crucial decision criteria cited by PKF is contained in Tables 56 and 57 entitled "Philadelphia's Competitive Position." This data was obtained by asking convention planners to rate Philadelphia, Atlanta, Boston, Chicago, New York, Orlando and Washington, D.C. with respect to various characteristics which would affect convention location.

Respondents were asked which cities they would rate "best" for 11 characteristics. Philadelphia received its highest "best" rating for "convention hall and meeting facilities." Philadelphia got the most "worst" votes for "glamourous or popular image" and "pre- or post-convention activities." In other words, the highest negatives had nothing to do with convention centers or hotel rooms.

One of the principal reasons the Reading Company and the Reading site was chosen above the others, and one of the principal reasons for building a convention center of this large size, was because of the committee's fixation on seeing a 1,200-room convention hotel built, even though neither the committee nor the developers had established that Philadelphia could support a hotel larger than any other in the city. The City Planning Commission's Program Objectives required developers to submit plans for the development of a 1,200-room hotel on the premise that the hotel would be "a major element in assuring the success of the Convention Center facility . . . that will provide a major portion of the city job and tax benefits associated with the Convention Center complex."

Reading was the only developer that included a 1,200 room hotel in its plans, the other developers rejected the idea outright. *But to this day, Reading has not committed itself to building and operating a 1,200 hotel.* Reading's partner in the project, Hyatt, said it would operate a hotel (not invest in it), and Reading merely agreed to build a hotel of up to 1,200 rooms *if* that proved feasible.

Reading Company made the proposal (although this was never put in writing) to build a 1,200-room hotel to be managed by Hyatt when Reading was the designated developer of the convention center. At a June 19, 1984 Council Finance Committee hearing, Reading officials said they were not prepared to make any public commitment to play a role in the convention hotel development if the city chose the "purely public" scenario in which the city—not Reading—would serve as builder/developer of the convention exhibit hall and as redeveloper of the Train Shed.

Now the company has been stripped of its involvement in the convention center by Governor Thornburgh.

As reported in the *Inquirer* on May 8th, Reading hinted that the size of the proposed convention hotel could be cut in half. "The size of the hotel is now under review," Reading vice president William P. Hankowsky told the *Inquirer*. "Our team is prepared to proceed. But we're now studying when it can be built and how large it can be." Industry analysts said there was little likelihood that Reading would build the 1,200-room hotel that the Philadelphia Convention and Visitors Bureau says is crucial to attracting national conventions and trade shows to the convention center.

Remember, the PKF study stated that "One important aspect of the hotel situation in a city is the willingness of hotel management to commit a portion of guest rooms to major convention business" and that a "lack of committable convention hotel rooms affects the marketability of Philadelphia."

According to Mark Lammers of Laventhol & Horwath, the problem is not that there aren't enough hotel rooms. The problem is that the hotels don't trust and don't respect the Conven-

(Continued on page 14)

tion & Visitors' Bureau and so don't cooperate with it. "Hotels in Philadelphia tend to operate independently of the Convention & Visitor's Bureau in pursuit of conventions to the point where they will not even let the Bureau know who is coming.

"Hotels don't block out rooms not because there aren't enough rooms," he said, "but because they don't trust the Convention & Visitor's Bureau to fill them."

"The Convention & Visitors' Bureau hasn't done its job. They are not very good at selling the city. The problem is all in the marketing, not in the facility. They are using the alleged Civic Center deficiencies as a crutch.

"A very large problem with this study is the fact that it was commissioned by the Convention and Visitors' Bureau, so naturally you won't find any criticism of the Convention & Visitors Bureau in the study."

"It has always appeared to us that it would be difficult for Philadelphia to support a 1,200-room hotel," said Peter R. Tyson, a partner in Laventhol & Horwath. "That's an extremely large hotel. There are two convention seasons—spring and fall. How do you fill those rooms during the rest of the year?"

Members of the hotel industry, the Reading Company, the Center City hospitality industry and our city government say that even if the proposed convention center does lose money and does displace existing businesses and residents, the city economy will benefit from the incoming tourist dollars so much that the loss will be made up by increases in jobs and increases in tax revenues. This is referred to as the "multiplier effect."

Marc Breslow of City Council's technical staff noted in a recent memo several areas in which he believes the administration has erred in its calculations.

After consulting numerous economic experts, Breslow says he concluded that the city administration's multiplier of 3.0 is substantially too high, and that a multiplier of 2.14, which is about 40% lower, would be more realistic.

According to Breslow's calculations, the net present value of increased tax revenues due to the center, is approximately $117 million, barely half of the administration's calculation of $231 million.

What's more, notes Breslow, the administration assumes that all new jobs created by the center will occur in the city. "While I can only make an educated guess on this issue," Breslow said, "it is likely that a substantial proportion of the 'indirect' and 'induced' jobs caused by the center would be created outside the city, so that around 20% of the total jobs would be in the suburbs."

Michael Masch of City Council's technical staff adds that the Pannell Kerr Forster study did not take into account new convention facilities in Atlantic City, Valley Forge or Delaware County. It is not clear at this point whether these facilities would have their greatest negative impact on the City's proposed new downtown convention center or on the existing Civic Center. Either alternative, however, is likely to represent a shrinking of the city's potential share of the regional convention market. And that means, or could mean, scaling down likely project benefits and scaling up likely operating losses, either at the old Civic Center, the new downtown center, or both.

That the City will be better off by building a convention center is a fallacious argument, according to Walter Block, senior economist of the Fraser Institute in Vancouver.

"First of all," he says, "it ignores the experience of such places as Montreal with its Olympics, and New Orleans with its recent Worlds Fair. Both places lost money hand over fist. Tourist dollars came in, but at far too small an amount to cover the citys' huge operating losses."

"Second, this argument commits the fallacy of 'the seen versus the unseen.' True, there is a multiplier effect engendered by the construction of the convention center and by the jobs created in order to run it. But what about the 'unseen?' What would have happened to all these millions of dollars had they not been taken from taxpayers and funneled into the mega project in question? People would have spent this money as they always do: on paper clips and pretzels; on toasters and frisbees; on apples and toothpaste. These expenditures, too would have created a 'multiplier effect.'"

"The right question to ask," says Princeton economics professor Edwin Mills, "is does this project yield larger benefits to the residents of Philadelphia and Pennsylvania than would any other use of the money, including tax and debt reduction? The city has produced not one shred of evidence or analysis that a convention center would be more beneficial to Philadelphia residents than better schools, more police protection, reduced taxes or any other use of the money."

"It is difficult for me to imagine that anyone could claim with a straight face that a convention center is the best use of millions of dollars of Philadelphia residents' money."

Those who appeared at the City Council hearings to argue for the building of the convention center included [illegible] Company.

Convention center

(Continued from page 20)

which will find a use for its obsolete train shed. Consultants who receive millions of dollars from the planning process; hotel owners and Center City restaurant and bar owners who believe they will benefit when taxpayers subsidize the conventions of incoming tourists; and organized labor, which represents a small minority of working people in the City, but whose members will gain jobs at the expense of others.

It is also interesting to note who is *not* testifying on behalf of the convention center:

- The thriving, small business community in the path of the convention center that has made the area—far from "blighted"—bustling and active. Most of these jobs are unskilled, entry-level jobs, the kind that our leaders stress are desperately needed.
- Chinatown residents and businesses.
- The taxpayers of the Northeast, South Philly, North Philly, etc.
- Restaurant and bar owners outside of Center City who will not benefit at all from the center, but who will pay for it every time they serve a meal or pour a beer if a proposed tax is implemented.
- Unemployed people—especially unskilled—who will remain unemployed because the amount of money that would be available to hire them will go instead (through taxes) to benefit influential and politically savvy businesses in Center City Philadelphia.

Why are they not testifying against it? They are fooled by the "seen" vs. the "unseen." They are not organized as well as others.

I think I know who is going to end up making up the convention center's deficit. It is all of the citizens of Philadelphia, the neighborhoods, and the self-built businesses of Philadelphia—if any are left.

Linda Paulson works for an insurance company in Center City. She lives in Fairmount.

(Note: Dr. Edwin Mills is editor of the Journal of Urban Economics.)

LETTERS
TO THE EDITOR

Convention Center

To the Editor:

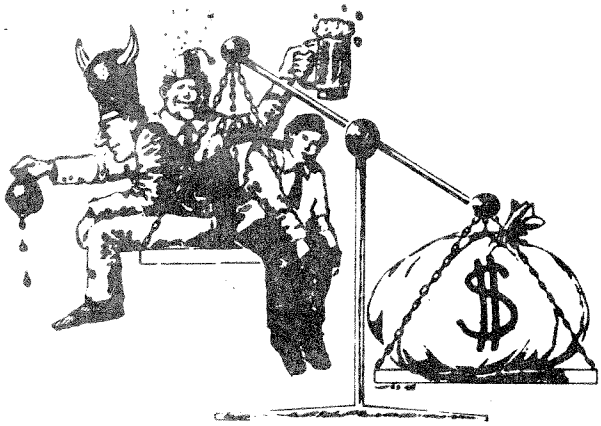
I realize you had to edit my article about the proposed Reading Convention Center (Sept. 4) because of space considerations, but you disarmed one of my big guns!

Dr. Edwin Mills, besides being a professor at Princeton, is the editor of the *Journal of Urban Economics*. You left out two important quotes from Dr. Mills: "Most economists no longer attach much validity to multipliers, because experience and careful statistical analysis have cast doubts that they are of substantial magnitude." And, "There is not a shred of evidence that local employment is stimulated by large local government spending."

Why are these important statements? Because "multipliers" have been used in cities across the country to justify every big money-losing, taxpayer-funded project, from stadiums to world's fairs to convention centers. The "multiplier effect" is now a popular myth.

Fifty years later, we are finally waking up the awful effects of the popularization of Keynes' theory that deficit spending by government is good for the economy—only a few Democrats still believe such nonsense. If we can make strides in discrediting the "multiplier effect," we will have come a long way.

Linda Paustian
Fairmount



Bob Hires

To the Editor:

It is apparent that you had a heavy hand in altering the content (and the significance) of Linda Paustian's article "Convention Center Economics: Now you see it . . ."

The whimper at the end must have replaced Ms. Paustian's bang as the article and the paper just ran out of pages. The omissions are its most distinguished feature. For a minute there I thought I was reading the *Philadelphia Inquirer*, the convention center's most prominent apologist.

One realizes that a subject of such multi-million dollar importance to Philadelphia requires considerable ink to discuss fully, such that a two-week, two-part approach might have been more sensible and also have granted the *Welcomat* sufficient leftover advertising space.

In any event, if your paper is willing to add to the debate on the terrible convention center project, you might allow more complete information. For example, blatantly missing from the article as published:

• Any mention of BARC (Businesspeople Against the Reading Convention Center), who valiantly fought the project to save their businesses from unfair, inadequately compensated displacement.

• Any mention of the 84 households and 100-year-old residences and the

(Continued on page 6)

(Continued from page 5)

lives therein who will be displaced.

• Any mention of the economic losses to those people and business owners.

• The large number of public commentaries presented in April to PIDC on the inadequate "Draft Environmental Impact Statement" and the immense silence in response.

• The curious inter-relationships between the Reading Company, the City Planning Commission, the PIDC, the Site Selection Committee and the Reading Company advisors before and during the convention center site selection.

• The extremely limited role of City Council in the entire matter and the paucity of information provided to Council in order to make a proper judgment.

There is a distinct possibility that the size, cost and predictable economic failure of the convention center project will finally convince the Philadelphia power structure to scale down its effort to something more sensible.

The latest plans, already severely changed by the instant removal of the Reading Company as principal owner/developer, have not been revealed to the public. Perhaps City Council, back in session, will start asking incisive questions. A few more questions from the local press won't hurt either.

Gray Smith
Center City

Editor's comment: Most of the omissions you cite have been mentioned in previous Welcomat essays on the same subject. And I am fascinated by your apparent telepathic powers in divining what I must have cut out of Linda Paustian's article—powers not witnessed in these parts since the Walt Disney film, Merlin Jones. I would love to see the conclusion which you are certain she must have written; the conclusion she did write is the one we printed.

BEN & FRANCES GILMORE

Senate Local Government Committee Hearings
c/o Peter Detwiler Room 2085 12/6/89
State Capitol Building
Sacramento, CA 95814

Please add these to the comments presented at the hearings tomorrow--

My Name is Ben Gilmore. I reside at 17125 Depot Street, Morgan Hill, CA 95037. I may be reached by phone at 408/779-3030 and FAX at 408/779-5243.

I was privileged to manage the recent Gilroy campaign against RDA. Precinct election results are attached as Exhibit 1.

Associated with that campaign was the anti-RDA challenge of three pro-RDA incumbents on the City Council. I was privileged to manage those three campaigns as well.

On Exhibit 1 I have placed an "*" by the races we won on a per precinct basis. Before presenting what I believe were the major issues involved, let me present a brief overview of the results of the campaigns.

Santa Clara County Registrar advises me the county-wide November 7th turnout was only 19%. Exhibit 1 lists the various races in the county and shows that Gilroy's RDA-focused campaigns produced a 35% turnout, second only to the Los Gatos City Council election.

Net results of the Gilroy campaigns may be seen in the lower right of Exhibit 1. RDA-No 58.0% and RDA-Yes 38.5% of those who voted. The challengers mounted a serious threat to the incumbents. They unseated one of them (Palmerlee). The average spread between incumbent and major challenger was only 413 votes out of 4,448! There were two less serious challenges (Peterson and Putman). The average spread drops to around 100 when these are factored into the mix.

Easily the most significant indication is the wholesale shift of the Hispanic voter. Precincts #3961 & #3963 are the most predominantly Hispanic precincts in Gilroy. A long term incumbent Hispanic spokesman for the Mexican Chamber of Commerce with a popular personality and a high profile (Valdez) lost heavily to all three anti-RDA challengers (RDA-No 82.4%, Nelson 69.8%, Valdez 36.0%, RDA-Yes 11.7%).

The press reported the pro-RDA campaigns out-spent the anti-RDA efforts 10 to 1. Obviously there is something involved in this statement by the people which is of interest to your committee.

Of minor interest is the influence of personalities. The city council exhibited an arrogance in public hearings which offended the voters who had come to be informed and to present legitimate questions. Beyond that the only major issue in the election was RDA.

Eminent Domain was at the root of the pro-RDA problems. The point was made in a well read letter to the editor, "A bank robber with a gun, like the Council with eminent domain, may not intend to use it, but it significantly influences the results!"

The Council first retreated by agreeing not to apply RDA to residential-zoned areas. Since they refused to remove those areas from the RDA district (for obvious reasons) it only served to further educate the voter.

The council later retreated in a last ditch effort to remove eminent domain from the ordinance. This would require a new set of public hearings, etc. They made themselves look foolish by rushing to set this in motion the night before the election!

-- over please --

Box 905, Morgan Hill, CA 95037. Telephone (408) 779-3030

Anti-RDA technique was first educational. If we could help the voters understand that RDA at its root is a method whereby civil government, not the property owner, determines the "best use" of a property, we could defend private property rights. For context we reminded the voter of civil government's primary purpose, to PROTECT (NOT CONTROL) THE PROPERTY OF ITS CITIZENS.

Lastly- I see no constructive way civil government may implement the philosophy of RDA. It is a gross violation of private property in behalf of a favored few, using tax funds lifted from the public at large.

I recommend the legislature correct the situation with a series of steps: 1st) Admit the concept was illconceived and violates the principle of private property. 2nd) Commit to support all binding RDA-commitments. Broken commitments only compound the problems. 3rd) Stop any further initiation of RDA districts and make no further RDA commitments. For some cities, like San Jose, this may mean threat of bankruptcy. The current difficulties with Lincoln S&L show that the situation is not helped by delays.

The last step is most significant. Let the RDA administrations approach those who hold their illconceived commitments. They have a vested interest in avoiding total failure of the RDA. Ask for any terms they may offer RDA administration to help improve and perhaps correct the situation.

The result will be individual with each RDA situation and MUST NOT BE regulated from Sacramento. Centrealization of authority is violation of another basic American principle of civil government, local authority.

I hope you find these thoughts and proposals useful. I am forwarding a copy to Mrs. Sherry Passmore Curtis who was a great help to us in learning about RDA.

Ben Gilmore

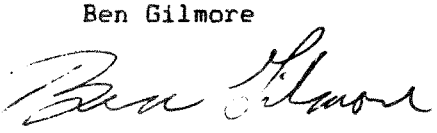


EXHIBIT J
A-112

City of Gilroy Election November 7, 1989
Analysis of Precinct Votes

Precinct #	3953			3979			3964			3951		
Precinct Registration	1180	V		1039	V		1249	V		952	V	
Ballots Cast	498	o		434	o		460	o		325	o	
Turn-out	42.2	t		41.8	t		36.8	t		34.1	t	
		e	%		e	%		e	%		e	%
Location	Hanna & Third			Eighth & Hanna			Wren-Westwood South			Welburn & Wren		
	~~RDA-No~~	320	64.3*	Gage	288	66.4	Gage	256	64.3	~~RDA-No~~	218	67.1*
	Gage	253	50.8	Palmerlee	233	53.7	Valdez	281	61.1	Nelson	181	55.7*
	~~Nelson~~	250	50.2*	~~RDA-No~~	220	50.7*	RDA-Yes	256	55.7	Gage	142	43.7
	Valdez	242	48.6	Valdez	217	50.0	Palmerlee	249	54.1	~~Mello~~	141	43.4*
	Palmerlee	216	43.4	RDA-Yes	204	47.0	~~RDA-No~~	196	42.6	Valdez	140	43.1
	Cooper	164	32.9	Nelson	175	40.3	Nelson	166	36.1	Cooper	131	40.3
	Mello	163	32.7	Mello	108	24.9	Mello	128	27.8	Plamerlee	100	30.8
	RDA-No	161	32.3	Cooper	96	22.1	Cooper	104	22.6	RDA-Yes	92	28.3
	Peterson	39	7.8	Peterson	58	13.4	Peterson	33	7.2	Peterson	43	13.2
	Putman	21	4.2	Putman	14	3.2	Putman	29	6.3	Putman	13	4.0
Did Not Vote on RDA:		17			10		8				15	
Test for Bullet Votes	Bullets:	73			56		47				42	

Santa Clara Co.		
	T	
Turnout	A	T
in other	b	o
County	s	t
Races	e	a
	n	l
	t	%
LosAltos	%	
Council	9.0	38.0
Gilroy		
Council	8.0	35.0
PaloAlto		
Council	7.0	34.0
Cupertino		
Council	2.0	25.0
Evergreen		
Sch Bond	37.0	23.0
Foothill		
DeAnza C	10.0	18.0
Orchard		
Sch Dist	14.0	12.0

Precinct #	3955			3961			3960			3981		
Precinct Registration	1309	V		719	V		867	V		1236	V	
Ballots Cast	427	o		229	o		270	o		379	o	
Turn-out	32.6	t		31.8	t		31.1	t		30.7	t	
		e	%		e	%		e	%		e	%
Location	1st-4th/Prince-Wren			Leavesly to IOOF			London South			Good Shepherd Churc		
	Gage	265	62.1	~~RDA-No~~	164	71.6*	Gage	185	68.5	Gage	233	61.5
	Valdez	215	50.4	Nelson	141	61.6*	Palmerlee	161	59.6	Palmerlee	220	58.0
	Palmerlee	211	49.4	Mello	130	56.8*	Valdez	150	55.6	Valdez	198	52.2
	~~RDA-No~~	208	48.7*	Cooper	102	44.5*	RDA-Yes	145	53.7	RDA-Yes	197	52.0
	RDA-Yes	198	46.4	Valdez	88	38.4	RDA-No	122	45.2	RDA-No	179	47.2
	Nelson	166	38.9	Gage	64	27.9	Nelson	112	41.5	Nelson	145	38.3
	Mello	139	32.6	RDA-Yes	48	21.0	Mello	75	27.8	Mello	94	24.8
	Cooper	120	28.1	Palmerlee	41	17.9	Cooper	40	14.8	Cooper	79	20.8
	Peterson	42	9.8	Peterson	21	9.2	Peterson	32	11.9	Peterson	49	12.9
	Putman	26	6.1	Putman	9	3.9	Putman	25	9.3	Putman	38	10.0
Did Not Vote on RDA:		21			17		3				55	
Test for Bullet Votes	Bullets:	48			45		15				40	

Absentee Votes		
12847	V	
347	o	
2.7	t	
	e	%
City-wide		
~~RDA-No~~	227	65.4*
Nelson	201	57.9*
Gage	151	43.5
~~Mello~~	149	42.9*
Valdez	149	42.9
Cooper	114	32.9
Palmerlee	112	32.3
RDA-Yes	105	30.3
Peterson	52	15.0
Putman	21	6.1
	15	
	46	

Precinct #	3970			3980			3963			3954		
Precinct Registration	1410	V		1170	V		908	V		808	V	
Ballots Cast	363	o		298	o		222	o		196	o	
Turn-out	25.7	t		25.5	t		24.4	t		24.3	t	
		e	%		e	%		e	%		e	%
Location	10th south to London			Las Animas area N.W.			IOOF to Tenth			N.W. of Kern & Firs		
	~~RDA-No~~	251	69.1*	~~RDA-No~~	198	66.4*	~~RDA-No~~	183	82.4*	Nelson	101	51.5*
	~~Nelson~~	186	51.2*	Nelson	158	53.0*	Nelson	155	69.8*	~~RDA-No~~	96	49.0*
	Valdez	171	47.1	Valdez	137	46.0	~~Mello~~	133	59.9*	RDA-Yes	93	47.4
	~~Mello~~	167	46.0*	Mello	132	44.3*	Cooper	129	58.1*	Valdez	86	43.9
	Gage	161	44.4	Gage	132	44.3	Valdez	80	36.0	Gage	84	42.9
	Cooper	137	37.7	Palmerlee	123	41.3	Gage	61	27.5	Palmerlee	80	40.8
	Palmerlee	121	33.3	RDA-Yes	92	30.9	Palmerlee	29	13.1	Cooper	61	31.1
	RDA-Yes	97	26.7	Cooper	89	29.9	RDA-Yes	26	11.7	Mello	59	30.1
	Peterson	36	9.9	Peterson	38	12.8	Peterson	18	8.1	Peterson	37	18.9
	Putman	15	4.1	Putman	14	4.7	Putman	7	3.2	Putman	21	10.7
Did Not Vote on RDA:		15			8		13				7	
Test for Bullet Votes		47			34		27				29	

Precincts + Absentee		
12847	V	
4448	o	
34.6	t	
	e	%
Whole City Vote		
~~RDA-No~~	2582	58.0*
Gage	2315	52.0
Valdez	2149	48.3
Nelson	2137	48.0*
Palmerlee	1896	42.6
RDA-Yes	1714	38.5
Mello	1618	36.4
Cooper	1366	30.7
Peterson	498	11.2
Putman	253	5.7
	152	
	556	

December 6, 1989

Senate Committee on Local Government
Marian Bergeson, Chairman

Gentlemen:

I would like to point out to the Committee that the police power of eminent domain is a threat to all land owners both inside and outside the boundaries of redevelopment districts. These powers are so broad that their indiscriminate use has created hardship, deprivation and disaster for many business owners and land owners that I am personally acquainted with in various adjoining communities.

At the present time, I am the President of Citizens Advocacy of South El Monte. We have filed public interest lawsuits against the Redevelopment Agency in the City of South El Monte.

We find that in these small cities, the property owner, land owner or business owner has almost no protection under the laws against his property being condemned and taken for the benefit of large developers, who then receive special considerations and other favors from the redevelopment agencies. This cost our tax payers enormous amounts of money and deprive these cities of the benefit of these businesses and the people of their constitutional rights.

The greatest abuse of this police power granted by these laws are demonstrated by the Los Angeles County Grand Jury Report on the City of West Covina. Please obtain that report and check their findings.

We have in this industry a great deal of con-men, embezzlers and thieves that travel from city to city in California misleading the people and causing misappropriation of the tax payers money. Please check the record of the City of Industry for proof of the conviction of some of these thieves of the public funds in that city. This is a prime example of the gross inadequacy of the law to serve the people of California.

As long as this thievery and deception is permitted within the redevelopment agencies, the right of eminent domain will continue to deprive people of their basic rights for the benefit of some but not for the benefit of the general welfare.

Very truly yours,

James O. Hamilton
10000 E. Rush St.
South El Monte, CA

DEAR SENATE COMMITTEE
I AM NORTON HALPER —
I WISH TO SPEAK ON
REDEVELOPEMENT

I DID CALL THE OFFICE IN
SACRAMENTO. WHEN I
FOUND OUT I COULD
LEAVE THE HOSPITAL
YESTERDAY.

I AM AN ELECTED
MEMBER OF THE
HOLLYWOOD PAC

DIRECTOR OF HOLLYWOOD
HOMEOWNERS & TENNENTS
ASSOC.

BOARD MEMBER OF S.H.O.T.
SAVE HOLLYWOOD OUR
TOWN.

THANK YOU
NORTON HALPER

December 07, 1989

Senate Committee on
Local Government
Room 2085
State Capitol
P O Box 942848
Sacramento, Ca 942848-001

Dear Sirs:

RE: **AB160**

Please be informed that I support AB160.

I was a former employee of the Community Redevelopment Agency of the City of Los Angeles for the Hollywood Redevelopment Project in Los Angeles. At the time I was employed by the Community Redevelopment Agency (CRA) the Hollywood Redevelopment Project was in its Adoption stage. As the Secretary for the Hollywood Project, I was responsible for answering inquiries regarding the project. **The most asked question was "Is Eminent Domain going to be used?"** Most of the calls I received were from Senior Citizens who own their own home or who were living in moderately priced rented apartments and have nowhere to move, and were scared to death of being put away to give room for development. Majority of the callers wanted to know why development must be at the expense of the homeowners or property owners. Some of Senior Citizens even cried over the telephone agonizing on what to do once they're doomed for relocation. I notified my supervisors of all that's happening, and they were very aware.

In order to quell rumors that eminent domain will be used to take private properties for private developers, I was instructed by my supervisor Diana Webb, who was the then Senior Project Manager to tell the people that eminent domain will never be used. **I was deliberately instructed to lie to people to prevent them from testifying at the public hearing to consider adoption of the Hollywood Redevelopment Plan which was held at the Los Angeles Council Chambers on April 16, 1986.**

Even the scheduling of the public hearing with the City Clerk was craftily done by the CRA, they were given dates to choose from and schedules of each Council Members' whereabouts were verified in order to avoid the presence of

those Council Members who might oppose the passage of the Hollywood Redevelopment Plan.

In July 1986, a community organization called Save Hollywood Our Town (SHOT) filed a lawsuit, Case No. C607295, challenging the validity of the Hollywood Redevelopment Plan. I was issued a subpoena to testify, and I did testify. I also signed Declarations alleging what truly happened at the time of my employment with the CRA concerning the Adoption of the Hollywood Redevelopment Plan.

In July 1989 SHOT filed a Notice of Appeal at the Los Angeles Appellate Court.

Respectfully yours,

Brenda Hendricks

Brenda Hendricks
6636 Fountain Avenue
Los Angeles, California 90028
(213) 467-3732

Mailing address:
P. O. Box 861761
Los Angeles, CA 90086-1761

Re: observations on the problem of Redevelopment Agendas for the 1990's

Dear Sirs:

Re-development as practised by the Community Redevelopment Agencies is just another Ponzi Scheme combined with the illegal pyramid scam, mostly used for the private profit and aggrandizement of certain re-developers through Corporate Socialism. For the sake of good business and a healthy Republic, this should be phased out.

Even though its original intent was to provide incentives for adequate housing for people, even though the implementation of that has a basic unConstitutional flaw, at least it was good in its original intent. But CRA's form of re-development is as evil as the Yahoo River deal or the Tea Pot Dome scandal, only more insidious and pervasive.

CRAs drive out Free Enterprise as bad money drives out good money.

Why should some re-developer pay a million dollars for some property when he can get some City Council/CRAgents to get it through the illegal use of eminent domain and with tax money, and then practically give it to the developer for one dollar? Even larger amounts dont begin to justify the cat's paw syndrome.

The argument that in some thirty years it will pay itself off is merely a carrot to the public to sound financially viable. There are at least two reasons, they have the opportunity to expropriate millions of tax dollars for their own private pockets, and in thirty years who will know the difference, as the business will be thirty years old and maybe even out of business.

This will enable the CRA and redevelopers to continue their sinecures: they can then declare the existing businesses blighted and then tear them down and erect new ones under the same ol' shell game and prolong the blatant ripoff. Even though it is blatant, it is apparently safe, as the Media, with its leftist thinking and protection for the most part, do not inform the public and when something comes out, such a financial subject is so boring to the general public that the Ponzi Schemes can hide in plain sight. Nor do the City Council/CRAgents ever discuss or inform on the cons and pros.

This would be a good project for your committee to do -- to inform thepublic not only of the virtues in redevelopment but its dangerous side-effects.

The real problem here is not only to stop these shennanigans, but to find officials and elected representatives with enough character and honesty and power to curtail such activities. But where are they? If it were not for our elected representatives who have passed spurious laws to enable such tax thievery in the first place, we would still be a nation of free enterprise for the public benefit instead of using the peoples' taxes as a public trough.

Does the loss of our taxes in this fashion justify the 'benefits' of some redevelopment project?

Of course many of the redevelopments look lovely and do improve the city, and are convient etc., but what about the cost?

To make such redevelopment activities valid we should investigate the total expense that went into their existance. The end does not justify the means. What if some shopping center cost several millions, but it cost the taxpayers several millions more to get it, and the truth were known beforehand, would the public vote for it? Especially if the whole thing, mostly paid for by taxes but belonging to one individual (or corporation) for his own private profit so that the public pays for it through the expropriation of their taxes and through the purchase prices as high as the market will bear. This is a good deal for the developer, but a questionable one for the general publi

This redevelopment should also consider the scam of the developers paying off what should be their mortgages under the free enterprise system with their tax payments: this sounds illegal and crazy? Crazy like a fox. Millions of our taxes are used to get the projecttgoing, and then the increment taxes are appropriated by the CRA before they ever get to the State tax structure for the good of the public, and used to pay their fancy salaries and other expenses, AND to pay off the million dollar bonds that were raised to finance it for the most part; these bonds produce no taxes of their own, they are tax free! Yet they are repaid out of the taxes of the people either from the taxes that

are paid by the public or by the expropriation of the (increment) taxes paid by the corporations. So by using the developements taxes to pay off the indebtednesses incurred by subsidizing the development, the shopping center is thereby paying off their mortgage in the form of the bond issue that was raised to do what their mortgage should have done under the free enteprise system. Is this fair? Is this good business for the State and our legislators to do? The answer depends on whether you have a sense of integrity or not.

I am all for development and even re-development under the free enterprise system. But I feel that if the CRA did not exist anymore there would be an upsurge of free enterprise and a greater use of conventional financing with better all-round benefits to the public. If some shopping center is a valid business enterprise, it is valid under free enterprise rather than under the socialistic, and anti-Constitutional property rights CRAs. The CRAs always give lip-service to free enterprise by stating that it was no good and was so ineffectual that the CRA was the only means for redevelopment: and to do it they used our taxes to bribe them. And such bribery and subsidies were most effective to the private pockets of the redevelopers and their ilk. All this adds to the total cost of any project.

The cities can help redevelopment by their use of zoning, when the property is already in the hands of the developer, bought on theopen market. It is against the interest of the public to rezone in order to legally, but dishonestly, force the public out of their homes and small businesses. They tried to do that in Baldwin Park, for example, under a very specious, and basically dishonest manoeuvre by trying to rezone an area for 'some future use', but in effect, it it had gone through,everyone of nearly 7000 people would have been in a non-conforming position and ripe for being kicked out of their businesses and homes at th whim of some re-developer. All the redeveloper had to do was go to City Hall and point out the area that he wanted and then the City Fathers would proceed to kick out and ruin thousands of people to cater to the developer because in some thirty years the City might recieve some revenue. If the CRA did not exist as a tool of the State to subsidize redevelopers for their own privat e profit, the redevelopers would be able to buy some existing used land to re-use. There would

be a meeting of the minds and an honest contract -- not some fascist deal where the owners are not given their full and potentail investment so that the redevelopers can make a lilling. Under Free Enterprise the re-developers could make an honest andfair profit, but with the traitorous help any City Council/CRAgents can use the power of the State to deprive the State.

For anyone to sell there must be something about the deal that makes it worthwhile to the owner. Under re-evelopments the only thing that is of concern by the CRA is how cheap they can acquire the land, not how fair they can be; fair market value from their point of view is fair to whom? just compensation by the CRA is just to whom?

Even if the use of CRA is countananced by you people, in acquiring land for some re-developer, just to get his project off the ground at the lowest cost the CRA can devise with fear and threats (even the implied one of death if an owner tried to protect his home why not pay thereplacement costs and plus other considerations under which the owner would be content to sell, and put the whole cost over a proprated area of the public money, so that everyone contributes to the usurpation of the land and the cost of the redevelopment, instead of just the few whose land and homes and businesses have been the victims while others profit directly or indirectly from their subjugation.

I suggest that all the canceled checks of every CRA should be xeroxed and put into a book-like file for perusal, to see just what everything really costs and where every penny went. Unless this is done the actual cost of the whole project will never be realized and the possibility of some whitewashed or fictitious or specious bill of sale would be arrnaged to give a false impression of value recieved of any redeveloomment. Every check relating in any way to any project. This includes all the consultants, gas and mileage payments, and every transaction that can be traced. Then we can see if any one project was worth violating the basic free enterprise aspects of this CRA re-development. Every check: with an explanation of to whom it went and for what, and have it crossed referenced for easier and more realistic perusals. This would show how and why and where the money from our taxes went. It should also show how many millions of

our taxes the new re-developers have been excused from paying which is in itself a form of subsidizing. So along with the Checks should be copies of all contracts and deals, and correlate these with the money paid out as well as the money not collected.!

This is no way implying anything like several thousand dollars ever went quietly to some numbered account in Bermuda. All I think is valid is that every penny be shown that has gone into any given project. Then see what all you have done, and if it were worth it.

Re-development at best is progress, and in the natural order of things. But re-development at the cost of millions of dollars from the public treasury in the form of siphoned-off taxes and loss of property rights is a slow and subversive betrayal of what our Republic stands for.

Also we have dissertations on the National Debt all over and its unfairness to the public and future generations. Yet nothing is being said about the billions of the CRA debts that are equally insidious, and although never mentioned are just as important and wrong as the National Debt. And incurred for the same reason: 'after me the deluge.'

So every time the National Debt is mentioned, the CRA bonded indebtedness should be also mentioned as both are to be paid off with our taxes, just like the S&L crisis.

In fact, this CRA form of redevelopment is basically no different than that.

The Re-developers in collusion with the CRAs is just as conniving as all the Keatings, and with the same results: the public puts its trust in our elected representatives like you as they did the S&L, and almost all of you have betrayed that turst by not watching the scams of the CRAs and their symbiotic buddies the Re-developers.

Why not cancel out all the CRAs and go back to Free Enterprise for all future developments in the 1990s?

Without the CRAs, redevelopments would be an American enterprise instead of corporate socialism. And the money would be found for valid projects, if the re-developers werent able to make use of the cunning Community Redevelopment Agencies.

Lorin Lovejoy

12749 Torch
Baldwin Park
CA 91706

Lorin Lovejoy

Secretary of the Baldwin Park
Homeowners Group

7-7-87
JMJ/T

As Members of the Baldwin Park Homeowners Group and having had to file a lawsuit against the Baldwin Park CRA/Council because they illegally appointed a Project Area Committee for our newest project implemented in Baldwin Park, we have become very much aware of the misinterpreted health and safety codes and the mismanagement of city monies used to finance the six projects we have in Baldwin Park.

Baldwin Park CRA/Council have waived PAC rights, owner participation rights and used condemnation/eminent domain to acquire properties for redevelopment. They have also used moratoriums to cause blight and then declare redevelopment needs.

Poor judgement on contractual agreements has led our B.P. CRA/Council to create a joint powers agency to insure monies for CRA purposes, and has caused serious financial stress to the point of possible bankruptcy. Baldwin Park CRA/Council is in partnership with two developers and thus has agreed to subsidize two projects for the next twenty years.

Small businesses are in jeopardy and homes are obsetele. If our CRA/Council wants an area for redevelopment

there is no stopping them. When proven wrong as we did with our lawsuit, they still continue to implement illegal plans, areegments, contracts. Once a city approves CRA, everyone, especially the homeowner is in jeopardy. Out-of-town, big developers take precedence over the homes and businesses that have resided in the city for many years. Community Redevelopment has a wonderful sound to it, but, it has been a <u>detriment</u> to homeowners, instead of an <u>enhancement</u> as its name should indicate. CRA should be outlawed, it has been the cause of problems any community would have never experienced, nor wanted. Easy money has caused painful elimination in the name of beautifying communities.

Frank Ramirez
Gustavia M. Ramirez

Members - Baldwin Park Homeowners Comp

JOHN J. TUITE
CRA ADMINISTRATOR

SENATE LOCAL GOVERNMENT COMMITTEE
INTERIM HEARING ON REDEVELOPMENT
THURSDAY, DEC. 7, 1989

GOOD MORNING AND WELCOME.

AS THE ADMINISTRATOR OF THE LARGEST
REDEVELOPMENT AGENCY IN THE STATE,
IT GIVES ME GREAT PLEASURE TO WELCOME YOU
TO OUR CENTRAL OFFICE FACILITY
AS YOU CONDUCT YOUR INTERIM HEARING
ON REDEVELOPMENT.
I ENCOURAGE YOU TO TAKE ADVANTAGE
OF OUR FACILITY WHILE YOU ARE HERE.

THE CALIFORNIA STATE LEGISLATURE
HAD THE WISDOM AND THE FORESIGHT IN 1945
WHEN IT ENACTED THE STATE REDEVELOPMENT LAW
AS A MEANS OF PROVIDING LOCAL GOVERNMENT
WITH A COMPREHENSIVE TOOL TO ELIMINATE BLIGHT
AND ENHANCE THE QUALITY OF LIFE FOR ALL CITIZENS.

THIS COUNTRY HAD BEEN THROUGH A DEPRESSION
AND THE SECOND WORLD WAR
AND CONSEQUENTLY SAW VERY LITTLE INVESTMENT
IN OUR CITIES.

THE END OF WORLD WAR TWO BROUGHT A NEW WAVE
OF POPULATION GROWTH
AS THOUSANDS OF GI'S WHO SPENT TIME IN CALIFORNIA
RELOCATED THEIR FAMILIES HERE
AND PLACED A NEW STRAIN ON LOCAL GOVERNMENT.

THE DEMOGRAPHICS BEGAN TO CHANGE
WITH THIS NEW INFLUX OF IMMIGRANTS
AND AS THE CITIES BEGAN TO GROW
TOWARD THE SUBURBS
THE URBAN CENTERS BECAME NEGLECTED
AND DECAY AND BLIGHT BEGAN TO TAKE ITS TOLL

LOCAL GOVERNMENTS WERE QUICK TO REALIZE
THAT PUBLIC INTERVENTION WAS NECESSARY...
IN SOME CASES THE MARKET FORCES PREVENTED
THE PRIVATE SECTOR FROM INVESTING THEIR DOLLARS
IN DILAPIDATED NEIGHBORHOODS
THE RISKS WERE TOO HIGH.

AS LOCAL GOVERNMENT LOOKED FOR WAYS
OF REVITALIZING URBAN CENTERS...
MASSIVE LAND CLEARANCE BECAME
THE APPROVED REMEDY TO BLIGHT.
PROJECTS LIKE CONSTITUTION PLAZA IN HARTFORD, CONNECTICUT;
WEST END IN BOSTON; SOUTH END IN WASHINGTON, D.C.,
AND BUNKER HILL IN LOS ANGELES
WERE GIVEN LIFE UNDER THIS EARLY METHOD.

YET DESPITE THE SUCCESS OF PROJECTS LIKE BUNKER HILL,
LOCAL GOVERNMENT CAME TO REALIZE THE TRAUMATIC EFFECT
THIS PROGRAM OF URBAN RENEWAL HAD ON NEIGHBORHOODS
AND ON PEOPLE'S LIVES.
NEIGHBORHOODS WERE UPROOTED AND THE CHARACTER WAS CHANGED.
IN DIRECT RESPONSE TO THIS EFFECT,
LOCAL GOVERNMENT AND CRAS NO LONGER USE
MASSIVE LAND CLEARANCE AS A TOOL
IN A PROGRAM OFF REVITALIZING AN AREA.
THE INCREMENTAL APPROACH TO REDEVELOPMENT
BECAME THE PREFERRED PROGRAM IN REBUILDING COMMUNITIES.
IN LOS ANGELES, THE CRA IS LOCATED IN 19 PROJECT AREAS
REPRESENTING 7,000 ACRES OR LESS THAN 2 PERCENT
OF THE AREA OF THE CITY.

REDEVELOPMENT HAS BROUGHT MUSEUMS
AND A CULTURAL COMMUNITY CENTER TO LITTLE TOKYO,
A MAJOR SHOPPING CENTER AND HEALTH-CARE FACILITIES TO WATTS,
AND A BUSINESS PARK TO WILMINGTON.
NEW LOW- AND MODERATE-INCOME HOUSING PROGRAMS
ARE BRINGING HUNDREDS OF RESIDENTIAL UNITS TO CHINATOWN,
ORTH HOLLYWOOD AND SOUTH-CENTRAL LOS ANGELES.

LOW-INTEREST AGENCY LOANS TO HOMEOWNERS
ARE POLISHING THE FADED VICTORIAN LUSTER
OF OLDER NEIGHBORHOODS SOUTHWEST OF DOWNTOWN IN THE
ADAMS/NORMANDIE, NORMANDIE/5 AND HOOVER PROJECTS
AND RESTORING SINGLE-FAMILY NEIGHBORHOODS
IN THE EASTSIDE REVITALIZATION PROJECTS
OF LINCOLN HEIGHTS AND BOYLE HEIGHTS.

REFLECTING A FULL ECONOMIC SPECTRUM OF COMMERCIAL VITALITY,
THE BALDWIN HILLS CRENSHAW PLAZA HAS INVIGORATED
THE LOCAL ECONOMY OF A PREDOMINANTLY MINORITY COMMUNITY,
GENERATING MORE THAN 1,000 CONSTRUCTION JOBS
AND, EVENTUALLY, SEVERAL THOUSAND PERMANENT JOBS
FOR LOCAL RESIDENTS.

IN NORTH HOLLYWOOD,
THE AGENCY LAUNCHED THE DEVELOPMENT OF THE ACADEMY,
A 22-ACRE OFFICE, RETAIL, ENTERTAINMENT,
AND RESIDENTIAL LANDMARK THAT WILL HOUSE
THE ACADEMY OF TELEVISION ARTS & SCIENCES HEADQUARTERS,
AND BOLSTER THE OLDER COMMERCIAL CORE
AND NEARBY RESIDENTIAL AREAS.

NOW EMBARKING UPON AN AMBITIOUS EFFORT
TO PRESERVE AND ENHANCE HOLLYWOOD,
THE CRA'S PLAN IS TO INTEGRATE
NEW COMMERCIAL AND HOUSING CONSTRUCTION
WITH HISTORIC PRESERVATION AND PUBLIC AMENITIES.

THE CENTRAL BUSINESS DISTRICT
ONE OF THE NATION'S LARGEST REDEVELOPMENT PROJECTS,
WAS ADOPTED BY THE CITY COUNCIL IN 1975.
WITHIN THE PAST DECADE,
A ROBUST FINANCIAL CENTER HAS BLOOMED
AND THE CBD'S ASSESSED VALUATION HAS TRIPLED.
PRIVATE INVESTMENT HAS MET AND MATCHED
FOUR TIMES OVER EVERY PUBLIC DOLLAR INVESTED THERE.

BUT DOWNTOWN REDEVELOPMENT DOESN'T STOP
AT THE EDGE OF THE VISIBLY SUCCESSFUL FINANCIAL CORE.
THROUGH THE CRA'S GIVEN ABILITY TO HARNESS PRIVATE ENERGIES,
THE AGENCY HAS INVESTED UPWARDS OF $170 MILLION
IN HOUSING, JOB CREATION AND RETENTION,
TRAFFIC MITIGATION AND OTHER IMPROVEMENTS
THAT BENEFIT ALL THE PEOPLE OF LOS ANGELES.

REDEVELOPMENT PRESERVED THE WHOLESALE PRODUCE MARKET
AND ITS 6,000 JOBS IN THE EASTSIDE INDUSTRIAL AREA.
CENTRAL BUSINESS DISTRICT TAX INCREMENT
FUNDED THE CITY'S SEISMIC REHABILITATION ORDINANCE
TO REPAIR IMPERILED COMMERCIAL AND RESIDENTIAL STRUCTURES
IN CENTRAL CITY EAST.

THE CITY COUNCIL DIRECTED THE AGENCY
TO PAVE THE WAY FOR THE EXPANSION OF THE CONVENTION CENTER
AND THE RENOVATION OF THE CENTRAL LIBRARY.

REDEVELOPMENT GOALS HELPED MAKE DOWNTOWN
AN AFTER-HOURS DESTINATION AGAIN,
BACKING ATTRACTIONS SUCH AS
THE MUSEUM OF CONTEMPORARY ART
AND THE LOS ANGELES THEATRE CENTER.

REDEVELOPMENT IS REVIVING
THE HISTORIC BROADWAY/SPRING CORRIDOR,
FROM CALIFORNIA MART
TO THE NEW RONALD REAGAN STATE OFFICE BUILDING
TO THE HISTORIC BRADBURY BUILDING.
REDEVELOPMENT IS FOSTERING
A MIXED-INCOME DOWNTOWN COMMUNITY IN SOUTH PARK,
PUTTING NEARLY 2,000 NEW AND REHABILITATED UNITS
INTO THE CBD'S HOUSING STOCK.

CRA/LA HAS PRODUCED MORE LOW AND MODERATE INCOME HOUSING
THAN ANY OTHER REDEVELOPMENT AGENCY IN THE COUNTRY.
WE HAVE BUILT APPROXIMATELY 22,000 UNITS IN THE CITY.
70 PERCENT OF THOSE ARE SET ASIDE
FOR LOW TO MODERATE INCOME FAMILIES.
THE AGENCY IS CURRENTLY PRODUCING 1,000 NEW UNITS
AND 1,000 REHABILITATED UNITS OF HOUSING ANNUALLY.

CRA AFFILIATE AGENCIES ARE LIKEWISE MAKING A DIFFERENCE:
THE SRO HOUSING CORPORATION IS HELPING TO MAINTAIN AND
PRESERVE THE FRAGILE HOUSING STOCK IN SKID ROW.

TODAY, MORE THAN 1,100 SINGLE ROOM OCCUPANCY UNITS
IN 11 HOTELS HAVE BEEN REHABILITATED
OR ARE NEARING COMPLETION
AND HAVE BEEN PLACED UNDER RESPONSIBLE MANAGEMENT.
THE SKID ROW DEVELOPMENT CORPORATION HAS GENERATED
HUNDREDS OF LOCAL JOBS
AND PROVIDED LONG-TERM SHELTER AIMED AT RETURNING
THE DISADVANTAGED TO PRODUCTIVE LIVES.

REDEVELOPMENT HAS EVOLVED TODAY AS A TOOL
THAT IS EVER CHANGING TO MEET
THE NEW AGENDAS AND PRIORITIES OF TODAY.
WE HAVE MOVED BEYOND THE BRICKS AND MORTAR PHASE
AND BEGUN TO EMPHASIZE THE HUMAN DIMENSION.
AFTER ALL, PEOPLE ARE WHAT REDEVELOPMENT IS ALL ABOUT.
TODAY LOCAL GOVERNMENTS ARE STILL FINDING
THAT REDEVELOPMENT HAS AN IMPORTANT ROLE
IN ADDRESSING THE PROBLEMS OF URBAN BLIGHT.
BUT, WHAT WILL THE REDEVELOPMENT OF TOMORROW HOLD
AND HOW WILL IT ADDRESS THE PROBLEMS OF THE FUTURE?
THERE ARE A WHOLE NEW SET OF CHALLENGES
BEFORE US THAT REQUIRE STRONG EXAMINATION BY GOVERNMENT
AND WILL INEVITABLY TEST THE ABILITY OF REDEVELOPMENT
TO BE FLEXIBLE IN ADDRESSING THE REALITIES OF TOMORROW.

WHAT ARE SOME OF THESE CHALLENGES?
LOS ANGELES HAS BECOME
ONE OF THE WORLD'S PREEMINENT ECONOMIES...
IT HAS FIVE PERCENT OF THE STATE'S LAND BUT OVER ONE-HALF
OF THE STATE'S TOTAL ECONOMY ...
AND OVER A QUARTER OF THE JOBS
AND PEOPLE IN THE WESTERN STATES.

THE REGION'S SHARE OF THE GNP NOW EXCEEDS THE TOTAL OUTPUT
OF INDIA...AUSTRALIA ... SWITZERLAND ...
MAKING LOS ANGELES
THE 11TH LARGEST ECONOMY IN THE WORLD.
THE TREMENDOUS INFLUX OF IMMIGRANTS
FROM ALL OVER THE WORLD, IN PARTICULAR MEXICO,
CENTRAL AMERICA AND THE PACIFIC RIM,
IS CAUSING A SEVERE STRAIN OF LOCAL GOVERNMENT RESOURCES.

LOS ANGELES IS NOW A METROPOLITAN AREA OF
ALL RACES, CULTURES, LANGUAGES, AND RELIGIONS,
MAKING THIS AREA THE MOST DYNAMIC PLACE IN THE WORLD.
LOS ANGELES HAS THE LARGEST
MEXICAN POPULATION OUTSIDE OF MEXICO CITY ...
THE LARGEST FILIPINO POPULATION OUTSIDE OF MANILA ...
THE LARGEST SAMOAN POPULATION OUTSIDE OF SAMOA ...
THE LARGEST CENTRAL AMERICAN POPULATION
OUTSIDE OF CENTRAL AMERICA.

EACH OF THESE GROUPS BRINGS THEIR ETHOS, ARTS,
IDEAS AND SKILLS TO A COMMUNITY
THAT WELCOMES AND ENCOURAGES DIVERSITY
AND GROWS STRONGER BY TAKING THE BEST FROM IT.
BUT HOW WILL THESE IMMIGRANTS
WHO CAME TO THIS COUNTRY TO SEEK A BETTER LIFE
PARTICIPATE AND BENEFIT FROM REDEVELOPMENT?
THE CREATION OF JOBS MUST BE A PRIORITY.
WE MUST RETAIN AND EXPAND THE BLUE COLLAR JOBS
AS WELL AS GENERATE NEW WHITE COLLAR JOBS
REDEVELOPMENT HAS ALREADY RETAINED OR CREATED
OVER 77 THOUSAND JOBS
IN THE CENTRAL BUSINESS DISTRICT ALONE.

BUT ALONG WITH JOBS COMES THE NEED
FOR A JOBS HOUSING BALANCE.

HOW WILL REDEVELOPMENT HELP PROVIDE
THE AFFORDABLE HOUSING SO DESPERATELY NEEDED?
THE PRICES OF ONCE AFFORDABLE HOUSES
WILL BE OUT OF REACH FOR MOST SINGLE-WAGE FAMILIES ...
AND NEWCOMERS AS WELL AS OUR GROWN CHILDREN...
WILL BE COMPELLED TO MOVE TO THE EVER-DISTANT SUBURBS.
THIS WILL ONLY ADD TO THE ALREADY EXISTING TRAFFIC PROBLEM
CURRENTLY EXPERIENCED BY MANY URBAN AREAS.

HOW WILL REDEVELOPMENT ADDRESS THE PROBLEM OF TRANSPORTATION IN THE NEXT CENTURY?

THE TRANSPORTATION PROBLEMS OF LOS ANGELES
ARE ALREADY SELF-EVIDENT.
TRAFFIC SLOW-DOWNS ON THE FREEWAYS
CAN BE EXPECTED AT ANY HOUR OF THE DAY, INCLUDING WEEKENDS.

IN THE YEAR 2000, THE AVERAGE MORNING RUSH HOUR SPEED
ON THE ENTIRE FREEWAY SYSTEM
IS EXPECTED TO BE 17 MILES PER HOUR,
HALF THE SPEED OF 1980.
ALTHOUGH THE METRORAIL AND LIGHT RAIL
WILL BE ALMOST COMPLETE,
MANY OF US WILL STILL CONTINUE TO USE
THE AUTOMOBILE AS OUR CHIEF METHOD OF TRANSPORTATION.

THESE AND OTHER ISSUES LIE BEFORE US IN THE NEXT DECADE.
TOGETHER WE MUST ACT AS PARTNERS TO ADDRESS THESE ISSUES.
TO THE CRA, PARTNERSHIP HAS BEEN A TRADITIONAL WAY
OF ADDRESSING THESE ISSUES.
WITHOUT THE PARTNERSHIP OF LOCAL STATE AND FEDERAL
GOVERNMENT WITH THE PRIVATE SECTOR,
REVITALIZING NEIGHBORHOODS IS DOOMED TO FAILURE.
UNFORTUNATELY, WE HAVE LOST A PARTNER
IN THE FEDERAL GOVERNMENT,
WHICH HAS ELECTED TO DEFER MOST URBAN MATTERS
TO LOCAL AND STATE GOVERNMENTS.

THIS CALLS FOR AN EVEN STRONGER PARTNERSHIP
BETWEEN LOCAL AND STATE GOVERNMENT,
THE PRIVATE SECTOR, AND A NEW PARTNER, THE NON-PROFITS.
STATE LEGISLATION WILL HAVE TO BE DESIGNED
TO ALLOW FLEXIBILITY IN ADDRESSING LOCAL SITUATIONS.
AT CRA/LA, WE LOOK FORWARD TO THIS PARTNERSHIP
AS WE WORK TOGETHER IN ADDRESSING THE NEW CHALLENGES
OF THE FUTURE.

TOGETHER WE CAN MAKE A DIFFERENCE.

--END--

SUSAN GOLDING
CHAIRMAN
SAN DIEGO COUNTY BOARD OF SUPERVISORS

December 13, 1989

Honorable Marian Bergeson
Chairman, Senate Committee on Local Government
Room 2085
State Capitol
Sacramento, CA 95814

Attention: Peter M. Detwiler

Dear Senator Bergeson

Thank you for the opportunity to submit written testimony for inclusion in documents prepared for the hearing held December 7, 1989, entitled "Redeveloping California: Finding the Legislative Agenda for the 1990s."

Enclosed is the San Diego County Board of Supervisors' Legislative Policy on Redevelopment adopted on July 5, 1989. This policy was developed at Board direction to recognize the regional significance of redevelopment.

The County of San Diego, like a number of other counties, is pursuing redevelopment projects for communities in the unincorporated area. The Board's legislative policy attempts to balance the needs of the County, as it looks to this financing tool to help meet infrastructure needs in the unincorporated area, with the need to accommodate at an affordable level redevelopment projects in the cities of our County. The policy suggests reforms to existing redevelopment law which would lessen the negative fiscal and operational impacts on all affected agencies and reduce abuses which frequently occur, while at the same maintaining this financing tool for truly beneficial projects in the region.

Only recently has the Legislature shown an interest in focusing on the structural problems of local agency financing which cause counties to be in such dire straits. Chief among these problems are our property tax allocation system, and the way property taxes and sales taxes are shared between counties and newly formed or -enlarged cities. Redevelopment as presently financed is among those problems.

COUNTY ADMINISTRATION CENTER 1600 PACIFIC HIGHWAY • ROOM 335 SAN DIEGO, CALIFORNIA 92101 (619) 531-5533

On behalf of the Board of Supervisors, I appreciate your continued interest in this very important issue and stand ready to work with you to secure badly needed legislative reforms.

Sincerely,

SUSAN GOLDING
Chairperson
Board of Supervisors

SG/mhb

Enclosure

cc: Members, Board of Supervisors
County Supervisors Association of California
Patricia Gayman

COUNTY OF SAN DIEGO

LEGISLATIVE POLICY ON REDEVELOPMENT

Purpose

To support amendments to redevelopment law which would generally reduce the negative financial and operational impacts on affected agencies, while at the same time maintaining this financing tool for beneficial projects in the region; and to oppose legislation which would expand the application of tax increment financing without appropriate criteria to protect against abuse.

Background

Only recently has the Legislature shown an interest in focusing on the structural problems of local agency financing which cause counties to be in such dire fiscal straits. Chief among these problems are our property tax allocation system, and the way property taxes and sales taxes are shared between counties and newly-formed or -enlarged cities. Redevelopment, as presently financed, is among those problems.

Redevelopment projects are financed by means of "tax increment financing." Virtually all growth in assessed value of properties within the boundary of a redevelopment project area is reserved for the redevelopment agency to pay off indebtness related to the redevelopment project. This method of financing affects taxing agencies in the area which would ordinarily benefit from that growth. This is particularly the case for counties, whose regional service responsibilities grow as redevelopment proceeds, while the revenue base is frozen. Cities, on the other hand, benefit dramatically from the capital improvements financed by tax increment financing as well as by the increase in sales tax revenues which often accompanies such improvements.

This policy attempts to balance the needs of the County, as it looks to this financing tool to help meet infrastructure needs in the unincorporated area, with the need to accommodate at an affordable level redevelopment projects in the cities of our County.

Policy

It is the Policy of the Board of Supervisors to do the following:

1. Support legislation which would recognize the ongoing responsibility of counties to provide an array of regional services by protecting the general purpose revenue base of counties from erosion through unnecessary or protracted use of tax increment financing.

2. Support legislation which would amend the existing division of property taxes between a redevelopment agency and affected taxing entities to guarantee that taxing entities would receive, as a part of base year tax revenues, the annual 2% tax increment attributable to inflationary increases under Proposition 13.

3. Support legislation which would permit an affected taxing agency to benefit from the normal growth in tax increment within a redevelopment area.

4. Support legislation which would accelerate retirement of debt by applying the sales tax growth within the redevelopment area which exceeds increases in the Consumer Price Index to redevelopment project costs.

5. Support legislation which would require school districts to pass the full share of tax increment to the redevelopment agency.

6. Support legislation which would exclude from allocation to a redevelopment agency any increases in valuation of state assessed property.

7. Support legislation which would give counties greater discretion to determine the share of tax increment to be allocated to a redevelopment agency.

8. Support legislation which would provide to counties incentives to contribute some share of property tax increment over the annual 2% increment attributable to inflation, i.e., a guaranteed pass-through of tax increment in later years and/or a share of sales tax generated within the redevelopment project area.

9. Support legislation which would more fairly balance the roles of counties and cities in the negotiation process, e.g., require redevelopment agencies to provide more detailed and specific documentation of blight throughout the project area; require redevelopment agencies to describe other fiscal tools considered and reasons for not selecting those alternatives; require from redevelopment agencies analyses of proposed project improvements and the manner in which such improvements will generate growth in property tax revenues beyond that which might be anticipated in the absence of redevelopment.

10. Support legislation which would reimburse counties for all expenses incurred by the county Auditor and/or Assessor in performing any of the services required to be performed by counties for redevelopment agencies.

11. Oppose legislation which would limit the ability of counties to negotiate tax increment pass-through agreements.

12. Oppose legislation which would place limitations on redevelopment applicable only to projects in the unincorporated area.

13. Oppose legislation which would impose added, non-project related requirements on redevelopment agencies regarding the specific use of tax increment.

Sunset Date

This policy will be reviewed for continuance by 12-31-93

California Legislature

Senate Committee on Local Government

MARIAN BERGESON
CHAIRMAN

ROOM 2085
STATE CAPITOL
P.O. BOX 942848
SACRAMENTO 942848-001
(916) 445-9748

REDEVELOPING CALIFORNIA

FINDING THE LEGISLATIVE AGENDA FOR THE 1990s

A Background Staff Report for the Interim Hearing

of the

Senate Committee on Local Government

[revised]

December 7, 1989
Fourth Floor Conference Room
Community Redevelopment Agency
Los Angeles, California

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REDEVELOPING CALIFORNIA

Redevelopment is one of the liveliest and sometimes most contentious fiscal and land use programs. Created 40 years ago by the California Legislature, the Community Redevelopment Law gives local officials extraordinary powers to restore a block, reshape a downtown, or even budge a region. California's redevelopment agencies took in $3.5 billion last year, more than the total revenues of the State of Utah. If redevelopment agencies were a single company, these revenues would make them the 120th largest industrial corporation in America; bigger than Coca Cola, Grumman, or Inland Steel.

Redevelopment has literally changed the way California looks: office towers in Los Angeles, San Francisco, Sacramento, and San Jose exist because of redevelopment programs. Tens of thousands of low income households live in better conditions. Redevelopment dollars paid for nearly a million square feet in new public buildings in just the last year. Project areas attracted 20 million square feet in new commercial and industrial construction. Local officials credit redevelopment for almost 30,000 new jobs. For many California communities, redevelopment is the key tool for economic development.

Any program this visible and this expensive is bound to attract legislative attention. Each year the Senate Local Government Committee reviews nearly a dozen bills affecting redevelopment. Because redevelopment law has several facets, it can be difficult to see the overall effect of so many bills. To gain a better understanding of recent legislative activity and to prepare themselves to act on future bills, the Committee members called for an oversight hearing on redevelopment issues.

Legislative oversight. Holding an oversight hearing on redevelopment is not new to the Senate Local Government Committee. The Committee's 1982 hearings focused legislators' attention on five main issues.

- The location of redevelopment projects.
- The content of redevelopment plans.
- The fiscal review process.
- Property tax increment financing.
- Affordable housing.

The hearings crystallized public officials' thinking about possible solutions and led to the reform bills of the mid-1980s, especially AB 203 (Hannigan, 1984). Committee members believe that the time has come again to rethink these reforms and test their continued practicality.

On Thursday, December 7, the Committee will hold an interim hearing on redevelopment issues at the Los Angeles Community Redevelopment Agency's headquarters. The hearing gives the Committee members an opportunity to explore the evolution of redevelopment topics. Further, the hearing allows legislators to anticipate the bills that are likely to come before them during the next several years.

About this paper. This background report sketches the powers and procedures available to redevelopment agencies, reports changes and trends in their use, and offers findings about what might be on the Legislature's agenda for redevelopment. The report also examines 14 key redevelopment topics, explaining recent events and posing policy questions.

The Committee's staff revised this paper after the December 7 hearing to correct errors and omissions, expand on themes, and add three issues which had not been presented in the first version of the paper. The discussion of Proposition 98 is longer, based on material presented at the hearing by the Legislative Analyst's Office. The discussions of redevelopment agencies' appropriations limits, special supplemental subventions, and incorporations and annexations are completely new.

Changing goals. Statutes, like people, can change their goals as they age; the 40-year old Community Redevelopment Law is no exception. As it enters middle-age, this powerful state statute has already experienced several shifts in emphasis and direction. Originally enacted to complement federal urban renewal programs, the Community Redevelopment Law has repeatedly embraced new goals without shedding its earlier purposes.

Some redevelopment critics believe that public officials cling to these earlier concepts without recognizing that local needs have changed. Urban writer William Whyte recently claimed that:

> The momentum of the [federal] programs was still in force. The idea had been to empty out the blighted areas of the inner city and replace them with lower-density high-rise projects. Many of the areas were not truly blighted, but the expectation was self-fulfilling. Once an area was declared blighted, maintenance ceased, and long before yuppies came along, displacement of people was underway. Sometimes the redevelopment phase never did come about. To this day, there are cities with

> swaths of cleared space in limbo: [one city], which came near [to] destroying itself, still has many blocks awaiting redevelopment.

Federal law had focused on housing, requirng that over half the acreage in a redevelopment area be developed for residential use. The 1949 act changed this objective by including the power to clear and sell land on the open market. The 1954 amendments shifted redevelopment's emphasis to nonresidential development, increasing the contributions of private enterprise and local governments. Additional amendments in 1961 further emphasized nonresidential redevelopment, primarily in response to political pressure from big city mayors who worried about their declining tax bases as the middle class and commercial centers moved to the suburbs.

California's own mirrored these shifts, making it difficult for public officials, developers, and residents to agree on what redevelopment "really is" or what it "should be." Redevelopment agencies have multiple goals: slum clearance, affordable housing, job creation, and public works finance. As other concerns reached state and local officials, the Legislature reacted by amending these purposes into the statutes. Observers can find each of these public concerns reflected in the current redevelopment law. If the Legislature continues to respond as it has over the last four decades, observers should expect to find new themes entering the statutes.

FINDINGS

What will be on the Legislature's redevelopment agenda? Although no political prophesy is ever completely accurate, two controversies seem likely to drive the legislative agenda for redevelopment in the 1990s:

- Continuing fiscal conflicts between redevelopment agencies, other local governments, and possibly even state officials.

- Friction between redevelopment officials and local residents and property owners over the location, scale, and timing of projects.

The members of the Senate Local Government Committee can expect their colleagues to introduce measures that reflect these controversies.

- Counties and special districts will sponsor bills to improve their bargaining positions over the allocation of property tax increment revenues.

- There will be increased pressure on redevelopment officials to justify new project areas given the continuing fiscal constraints on all public agencies.

- Counties will become more aggressive in reviewing redevelopment agencies' statements of indebtedness.

- School districts will become more aggressive in negotiating pass-through agreements.

- State budget managers --- the Legislative Analyst, the State Department of Finance, and the Legislature's own fiscal committees --- will become increasingly concerned about redevelopment's indirect cost to the State General Fund. They will advocate greater state participation.

- Residents and property owners will continue to use public hearings, referenda, and project area committees to influence redevelopment officials' decisions.

- Property owners will challenge redevelopment officials' property management powers, particularly the use of eminent domain.

- Redevelopment agencies will continue to play a key role in promoting and retaining private investment in most California communities.

EXTRAORDINARY POWERS

Unlike most local governments, redevelopment agencies possess two very extraordinary powers:

- Property tax increment financing.
- Broad property management authority.

But these are not inherent powers of local officials. Redevelopment agencies have acquired these powers under state law. The California Legislature has delegated redevelopment powers to cities and counties. Legislators should remember that redevelopment is a state activity which they have lent to local officials to carry out. For some purposes, redevelopment agencies are instruments of the state government which are operated in communities by local officials.

Tax increment financing. A redevelopment agency keeps the property tax revenues generated from increases in property values within a redevelopment project area. When it selects a base year, the agency "freezes" the amount of property tax revenues that other local governments received. In future years, the agency collects the "tax increment," or additional amount of tax revenue that the new development generates above the frozen base. The following Table illustrates a simple example of tax increment financing.

PROPERTY TAX INCREMENT ILLUSTRATION

	BASE YEAR	1st YEAR	2nd YEAR	3rd YEAR
Base Year Assessed Value	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Incremental Assessed Value	$0	$160,000	$345,600	$560,896
Total A.V. In Project	$1,000,000	$1,160,000	$1,345,000	$1,560,896
Total Property Tax Revenues	$100,000	$116,000	$134,500	$156,090
City's share	$13,000	$13,000	$13,000	$13,000
County's share	$33,000	$33,000	$33,000	$33,000

	BASE YEAR	1st YEAR	2nd YEAR	3rd YEAR
Spec. dist. share	$18,000	$18,000	$18,000	$18,000
Schools' share	$32,000	$32,640	$33,293	$33,959
Redevelopment agency's share	$0	$15,360	$33,207	$54,131

In the base year, the total assessed valuation of the property in the redevelopment project area is $1,000,000 which produces $100,000 in property tax revenues. In the three succeeding years, property tax values increase 16% a year. The Table reports the resulting property tax revenues below the dashed line. The county government receives the largest share of these revenues: $33,000. The revenues from the compounding incremental values go to the redevelopment agency: $15,360 in the first year; $33,207 in the second; $54,131 in the third. The Table shows how most other local governments' shares of property tax revenues are "frozen" by the redevelopment agency. For example, the county government's $33,000 share remains the same. The schools' share remains nearly constant, increasing only to reflect the 2% inflationary growth rate under Proposition 13.

To get the capital needed to carry out their projects, redevelopment agencies issue **tax allocation bonds.** The agencies repay their bonds by pledging the property tax increment revenues that come from the project area. Once the tax increment revenues pay off the redevelopment bonds, the redevelopment agency ceases to receive its share of tax revenues. The other local governments then enjoy their earlier shares of the expanded property tax base.

This simple illustration shows a redevelopment agency's power to divert the compounded value from increases in assessed value. By capturing property tax increment revenues for many years, redevelopment agencies gain access to a steady revenue stream. Redevelopment projects stretch over decades; many last 30 to 40 years. The longest redevelopment project will be Corona's Downtown Project Area. Local officials created the project in 1966 and they estimate that it will last until 2040, taking **74 years** to finish.

Property management powers. In addition to their extraordinary fiscal powers, redevelopment agencies also have broad powers to manage real property. Most significantly, redevelopment officials can acquire real estate through eminent domain, a topic which has become increasingly controversial in many communities. Earlier this year, Assem-

blyman Mountjoy introduced AB 160 to limit redevelopment agencies' eminent domain powers. The Assembly Committee on Housing and Community Development sent AB 160 to interim hearing. Although that Committee had scheduled three hearings on AB 160 for this fall, they were recently canceled. Because the Assembly Committee plans to focus on eminent domain, the topic will not be a major issue at the Senate Local Government Committee's December 7 oversight hearing.

Procedures. The procedures for forming a redevelopment agency and for creating redevelopment project areas reflect the Legislature's interest in balancing democratic accountability with public sector efficiency. The requirements for notice, hearings, and even elections promote the accountability of public officials to their communities. The opportunities for decisive action and bold commitments encourage public officials to act like entrepreneurs. Sometimes, these goals conflict.

A dozen steps. Local officials must follow 12 major steps to establish their redevelopment projects:

- Elected officials "activate" the redevelopment agency.
- Elected officials designate a survey area.
- Planning commission selects the project area.
- Planning commission prepares the preliminary plan.
- Planning commission submits its plan to the agency.
- Agency prepares the redevelopment plan.
- Agency submits the plan to: the planning commission, a project area committee, and a fiscal review committee.
- Panels review and comment on the plan.
- Public hearing on the redevelopment plan.
- Agency approves the final redevelopment plan.
- Agency submits the final plan to elected officials.
- Elected officials approve final redevelopment plan.

Redevelopment plans. The Community Redevelopment Law sets out the specific contents for redevelopment plans, covering a score of topics. Some of the most important requirements are limits on the amount of property tax increment revenues and bonded indebtedness and setting deadlines for creating debts and using eminent domain.

Referenda? Local voters may review their elected officials' redevelopment decisions at two key points. Both the activation of a redevelopment agency and the adoption of the final redevelopment plan require a city council or county board of supervisors to adopt a formal ordinance. Like most ordinances, these decisions are referendable. If citizens

submit a sufficient number of signatures on petitions, a referendum election follows. Majority voter approval is required.

Amendments. If redevelopment officials want to amend a redevelopment plan in any significant way, they must follow the same procedures as for adopting plans, including referring the proposed changes to a fiscal review committee.

CHANGES AND TRENDS

No longer is redevelopment just a phenomenon of large, older central cities. Small towns like Sand City (205 residents), Needles (5,200), and Healdsburg (8,500) now have their own agencies. Resort communities like Avalon, South Lake Tahoe, Desert Hot Springs, and Indian Wells have embraced redevelopment. Redevelopment has found a home in the burgeoning suburbs of Rancho Cucamonga and Thousand Oaks. Newly incorporated cities have also joined redevelopment's ranks: Agoura Hills, Encinitas, and Moreno Valley.

Redevelopment project areas come in all sizes, from the City of Industry's two-acre Parque del Norte Project Area to the 20,439 acres of the Thousand Palms Project Area created by the County of Riverside. The following Table reports the wide variety of sizes.

DISTRIBUTION OF PROJECT AREAS, BY SIZE

ACRES	NUMBER
1-50	86
51-100	58
101-500	200
501-2,500	173
2,501-6,000	32
6,001-25,000	10
Not reported	26

[Source: Controller's Report, 1987-88]

By 1987-88, nearly 3/4 of all cities and 1/3 of the counties had activated their redevelopment agencies. Of the cities with more than 50,000 residents, 92% had redevelopment agencies. The Table on the next page shows the increased interest in redevelopment agencies.

Much of this expansion has occurred since the voters passed Proposition 13 in 1979. Between 1977-78 and 1987-88, local officials created 164 redevelopment agencies and 324 redevelopment project areas. In other words, 48% of the agencies and 52% of the projects have been created in the decade following Proposition 13.

The most obvious explanation for this increase in redevelopment activity is not a sudden outbreak of blight in small and medium-size towns. A more likely reason is the lure of tax

increment revenues. As constitutional changes restricted local officials' ability to raise new local revenues and as state and federal agencies have disengaged from their historical roles in public works financing, cities have turned to tax increment financing to fill the gaps. Creating a redevelopment agency is one way for local officials to keep the property tax revenues that result from new development.

AGENCY AND PROJECT AREA GROWTH

YEAR	NUMBER OF AGENCIES Established	Total	PROJECT AREAS Formed	Total
Before 1972	115	115	103	103
1972-73	16	131	34	137
1973-74	14	145	30	167
1974-75	11	156	28	195
1975-76	14	170	23	218
1976-77	4	174	33	251
1977-78	5	179	10	261
1978-79	8	187	20	281
1979-80	8	195	18	299
1980-81	27	222	17	316
1981-82	26	248	40	356
1982-83	27	275	57	413
1983-84	18	293	57	470
1984-85	20	313	36	506
1985-86	15	328	24	530
1986-87	8	336	33	563
1987-88	7	343	22	585

[Source: Controller's Report, 1987-88]

Not many redevelopment projects have been completed. A 1984 survey identified **only 17 completed projects** where the planned activities were finished, there was no further indebtedness, and the agency was no longer receiving property tax increment revenues.

The expansion in the number of agencies and their project area has not been uniform throughout California. The next Table summarizes redevelopment activity in each county.

REDEVELOPMENT ACTIVITY, BY COUNTY

COUNTY	AGENCIES/ PROJECTS	INCREMENT AS % OF TAX BASE	TAX INCREMENT REVENUE (millions) CRAs	OTHER	TOTAL
Alameda	13/15	5.78%	$33.1	$2.6	$35.7
Alpine	0/0	0	0	0	0
Amador	0/0	0	0	0	0
Butte	2/5	5.18	3.0	0.5	3.5
Calaveras	0/0	0	0	0	0
Colusa	0/0	0	0	0	0
Contra Costa	12/15	6.43	31.7	0.1	30.1
Del Norte	1/2	2.31	<0.1	<0.1	0.1
El Dorado	3/1	0	0	0	0
Fresno	13/22	2.63	5.9	0.2	6.0
Glenn	1/1	0.27	<0.1	0	<0.1
Humboldt	3/4	4.77	1.8	<0.1	1.8
Imperial	4/3	3.85	1.3	<0.1	1.4
Inyo	1/0	0	0	0	0
Kern	6/5	0.82	1.8	0.2	2.0
Kings	4/4	2.54	0.7	<0.1	0.7
Lake	2/0	0	0	0	0
Lassen	0/0	0	0	0	0
Los Angeles	66/178	8.44	290.2	25.8	316.0
Madera	2/0	0	0	0	0
Marin	7/4	5.24	2.5	0.7	3.2
Mariposa	0/0	0	0	0	0
Mendocino	4/1	0.36	0.1	0	0.1
Merced	4/4	3.68	2.1	0	2.1
Modoc	0/0	0	0	0	0
Mono	0/0	0	0	0	0
Monterey	9/13	4.06	4.8	0.2	5.0
Napa	1/1	2.16	1.2	0	1.2
Nevada	1/0	0	0	0	0
Orange	22/47	6.52	82.2	3.6	85.8
Placer	6/2	0.54	0.4	<0.1	0.4
Plumas	1/0	0	0	0	0
Riverside	20/56	11.80	44.6	7.0	51.6
Sacramento	4/12	3.42	12.9	0	12.9
San Benito	1/1	13.05	1.3	0.4	1.8
San Bernardino	18/47	12.02	52.7	4.3	57.0
San Diego	16/28	3.34	35.8	1.2	36.9
San Francisco	1/5	2.64	5.8	0	5.8
San Joaquin	4/6	1.15	1.7	0.1	1.8
San Luis Obispo	4/1	0	0	0	0
San Mateo	16/14	3.62	12.1	2.2	14.3
Santa Barbara	4/4	3.44	6.5	0	6.5

COUNTY	AGENCIES/ PROJECTS	INCREMENT AS % OF TAX BASE	TAX INCREMENT REVENUE (millions) CRAs	OTHER	TOTAL
Santa Clara	9/9	8.94	82.0	0.2	82.2
Santa Cruz	5/6	2.26	1.2	0.2	1.4
Shasta	2/2	2.99	1.4	0.2	1.6
Sierra	0/0	0	0	0	0
Siskiyou	3/0	0	0	0	0
Solano	8/13	11.16	11.3	1.7	13.0
Sonoma	9/11	2.70	4.6	0.4	5.0
Stanislaus	6/2	0.23	0.3	0	0.3
Sutter	0/0	0	0	0	0
Tehama	1/0	0	0	0	0
Trinity	0/0	0	0	0	0
Tulare	7/9	1.21	1.0	0.2	1.1
Tuolumne	1/0	0	0	0	0
Ventura	9/16	5.12	13.4	2.7	16.2
Yolo	4/1	2.37	1.0	0.2	1.2
Yuba	1/1	1.24	0.2	0	0.2
Statewide Totals:	334/585	6.09%	$752.0	$55.0	$807.0

[Source: Controller's Report, 1987-88]

In 11 rural counties, no redevelopment agencies exist. In other counties, such as Inyo, Madera, and Siskiyou, agencies exist but they have not formed any project areas. In some metropolitan counties, individual redevelopment agencies have formed several project areas. There are four redevelopment agencies in Sacramento County, for instance, but a dozen project areas.

In some urban and suburban counties, redevelopment has become a "hot" fiscal issue. In four counties, for example, property tax increment funding has "frozen" more than 10% of the countywide property tax base; see the next Table. Some redevelopment agencies share their property tax increment revenues with other local governments: counties, special districts, and schools. The previous Table indicates that redevelopment agencies shared 6.8% of their tax increment revenues in 1987-88 ($55 million of $807 million). But the degree of sharing varies widely among counties. A following Table reports these comparisons for the five counties which have more than $50 million in property tax increments revenues.

COUNTIES WITH HIGH PERCENTAGE OF TAX INCREMENTS

COUNTY	PERCENT OF TAX BASE FROZEN BY REDEVELOPMENT
San Benito	13.05%
San Bernardino	12.02
Riverside	11.80
Solano	11.16
Santa Clara	8.94
Los Angeles	8.44
Orange	6.52
Contra Costa	6.43
Statewide	6.09%

[Source: Controller's Report, 1987-88]

SHARED PROPERTY TAX INCREMENT REVENUES

COUNTY*	AMOUNT OF SHARED TAX INCREMENT
Riverside	13.6%
Los Angeles	8.2
San Bernardino	8.2
Orange	4.2
Santa Clara	<0.1

* - Counties with >$50 million in tax increments

[Source: Controller's Report, 1987-88]

FINDING THE LEGISLATIVE AGENDA FOR THE 1990s

What kind of redevelopment bills should the California Legislature expect to see during the next decade? While legislative prophecy is never an exact science, some observers can project what the future holds by looking at the recent past. This section of the background paper looks at 11 redevelopment topics and assesses the likelihood of future bills.

Not all public officials are pleased with the prospect of more redevelopment legislation. One Northern California mayor recently urged his State Senator not to propose new redevelopment bills. Reforms may be "well-intentioned," but the practical results hamper local programs by reducing continuity, he added. "Unfortunately, past and existing legislation has in many situations diminished [our] redevelopment agency's abilities to meet their goals," wrote the mayor.

A Southern California city manager echoed this concern in a separate letter to his State Senator. "Frankly," he wrote, "so much 'reform' legislation has been passed over the last few years, it is our hope that the Legislature would leave redevelopment alone for a year or two to see how previous legislation is being implemented."

This perception of legislative interference and the desire for statutory stability was repeated by those who advise redevelopment agencies. Just this Fall, one redevelopment lobbyist conceded to an audience of county officials that his redevelopment clients' legislative program was to have no program. His strategy is to deflect or oppose new bills.

Outside redevelopment agencies, there are at least four other sources of legislative initiatives:

- Housing advocates, concerned with affordable housing.
- County officials, concerned with fiscal effects.
- Property owners' groups, concerned with eminent domain.
- Legislative staff, developing policy issues.

Housing advocates continue to be concerned with how redevelopment agencies collect and spend their Low and Moderate Income Housing Funds. Most redevelopment bills in the last four years have focused on this topic. County officials continue to complain about the fiscal effects created by redevelopment agencies. Bills sponsored by counties are the second largest group of redevelopment measures. Property rights advocates have not been very active in sponsoring redevelopment bills in Sacramento. However, the introduction

of AB 160 (Mountjoy, 1989) galvanized their interests. The Assembly Committee on Housing and Community Development had planned to hold three interim hearings this Fall on Mr. Mountjoy's bill.

Legislative staff also rank as a source of redevelopment bills. Besides the Senate Local Government Committee, four other policy committees review redevelopment measures: the Senate Housing and Urban Affairs Committee, the Assembly Local Government Committee, the Assembly Housing and Community Development Committee, and the Assembly Revenue and Taxation Committee. In addition to these standing committees, staff members at the Assembly Office of Research (AOR) and the Legislative Analyst's Office (LAO) are currently studying redevelopment topics.

URBANIZATION AND BLIGHT

State law says that redevelopment is needed to eliminate blighted areas which are physical, social, or economic liabilities to California communities. Legislative policy says that blight reduces the proper use of land and cannot be changed "by private enterprise acting alone." But instead of precisely defining blight, the statutes instead describe its general characteristics. This broad approach allows for a wide variety of local interpretations of a statewide law.

Among the characteristics of blight, the Community Redevelopment Law lists these conditions:

- Defective design and physical construction.
- Faulty interior arrangement and exterior spacing.
- High population density and overcrowding.
- Inadequate ventilation, light, sanitation, open space, and recreation facilities.
- Age, obsolescence, deterioration, dilapidation, mixed use, or shifting uses.
- Irregularly subdivided lots.
- Subdivisions that ignore topography.
- Inadequate public works, open space, and utilities.
- Depreciated values, impaired investments, and "social and economic maladjustment."

By describing blight instead of defining it, state law makes it hard for citizens and public officials to agree on whether property is really blighted. The result is much like the old adage about pornography: you can't define it but you know what it is when you see it. Absent a detailed statutory definition of blight, redevelopment opponents must file lawsuits

asking the courts to review local officials' decisions. Some of the most celebrated cases involved Baldwin Park, National City, Porterville, and Solano County.

Reacting to reduced property tax revenues after Proposition 13 and the simultaneous retreat in public works funding by the state and federal governments, local officials turned to redevelopment as an alternative source of public capital. Smaller suburban communities started to activate their redevelopment agencies and form new project areas on undeveloped land. Capturing the property tax increment revenues as the land went from agricultural prices to developed values, these new redevelopment agencies were able to pay for the public works that attracted new private investment. County officials called them **"bare land projects."**

The Legislature passed AB 322 (Costa, 1983) which tightened the definition of a redevelopment project area. Beginning January 1, 1984, all new project areas (or amendments to project areas) must be **"predominantly urbanized."** The Costa bill defined that term to mean that at least 80% of the privately owned land must be developed for urban uses, improperly subdivided, or integral to a developed urban area. By requiring new projects to concentrate on areas that were already developed, the Legislature thought it was putting an end to "bare land projects."

In 1982 and 1983, local officials formed 48 project areas which had more than 20% vacant land. The phenomenon slowed after the 1983 restriction but "bare land projects" still continue. From 1984 through 1988, local officials reported forming 35 project areas which have more than 20% vacant land. The Table on the next page relies on information reported to the State Controller by redevelopment agencies themselves.

POST-1983 PROJECT AREAS WITH LARGE AMOUNTS OF VACANT LAND

AGENCY	PROJECT AREA	YEAR FORMED	ACRES	PERCENT VACANT
Huron	80-Acre Area	1987	80	100.0%
South San Francisco	Shearwater	1985	173	100.0
Rancho Palos Verdes	Project Area #1	1984	1,100	96.0
Antioch	Project Area III	1986	245	95.0
Antioch	Project Area II	1984	130	90.0
Palm Desert	Project Area 2	1987	3,120	85.0
Monterey Park	Southeast	1985	190	85.0
Upland	Airport South	1985	195	85.0
Pacifica	Rockaway	1986	140	80.0
Lindsay	Project Area #1	Prop.	626	75.4
Riverside County	Project Area 5	1987	130	74.0
Coachella	Project Area #3	1984	500	70.0
Desert Hot Springs	Project Area #2	1984	587	66.0
San Diego	College Grove	1986	167	66.0
Ridgecrest	Ridgecrest	1986	7,988	61.0
Loma Linda	Project Area #2	1987	617	50.0
Palm Springs	Baristo-Farrell	1986	483	47.0
La Mesa	Fletcher Parkway	1984	103	45.0
Colton	West Valley	1986	375	40.9
Parlier	Project Area #1	1985	800	40.0
Riverside County	Homeland, etc.	1986	1,102	37.9
Taft	Project Area #1	1986	899	36.8
Riverside County	Highgrove, etc.	1986	3,599	36.5
Riverside County	Home Gardens, etc.	1986	350	33.4
Sacramento	Walnut Grove	1985	15	30.0
Carson	Project Area 3	1984	620	30.0
Needles	Town Center	1984	957	29.5
San Diego	Southcrest	1986	233	26.0
Riverside County	Project Area 3	1987	40	26.6
Riverside County	Thous. Palms, etc.	1986	20,439	25.6
Los Angeles County	West Altadena	1986	80	25.0
Banning	Midway	1986	113	24.8
Sand City	Sand City	1987	347	23.3
Colton	Mount Vernon	1987	441	20.4

[Source: Controller's Report, 1987-88]

Although fewer projects contain large amounts of vacant land than before the 1983 Costa bill, "bare land projects" still continue. There are three possible explanations for these apparent violations of state law:

- Incompatible definitions. State law requires that

private property in a project area be at least 80% urbanized. The Controller asks what percentage of the entire project is "vacant." Some of the area considered "vacant" may be public land or may actually fit the statutory definition of urbanized.

- Poor reporting. Although signed by senior officials, junior staff members may be filling out the Controller's annual reports without proper guidance.

- Violations. With no state enforcement and little incentive for county officials to file suits (see below), the Controller's reports may identify actual violations.

POLICY QUESTIONS: HOW CAN 35 PROJECT AREAS FORMED AFTER THE 1983 REFORM BILL CONTAIN MORE THAN 20% VACANT LAND?

SHOULD THE LEGISLATURE ASK A STATE AGENCY TO INVESTIGATE?

IF SO, WHICH AGENCY? THE STATE CONTROLLER? THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT? THE DEPARTMENT OF FINANCE? THE LEGISLATIVE ANALYST? THE ATTORNEY GENERAL? THE AUDITOR-GENERAL?

No enforcement. When it passed the 1983 reform bill, the Legislature assumed that its enforcement would come from two sources: self-restraint and county officials. First, the Legislature assumed that the special redevelopment attorneys who advise local officials would avoid the threat of litigation and counsel their clients against including large amounts of bare land inside new project areas. Second, the Legislature assumed that county officials would file lawsuits challenging "bare land projects" if redevelopment agencies violated the new state standard.

Although no survey exists, anecdotes suggest that counties do not pursue lawsuits against "bare land projects" if they can negotiate pass-through agreements for the new property tax increment revenues. Having been "made whole," there is no economic or political incentive for counties to press their suits. Because there is no state watchdog agency, redevelopment officials can still create "bare land projects" if they satisfy counties' fiscal demands.

Further, as counties sponsor their own redevelopment projects, there is not even a fiscal watchdog to bark at "bare land projects." In 1986, Riverside County created the Thousand Palms Project Area which covers **20,439 acres.** Redevelopment officials report that a quarter of this 32-square mile project is "vacant." Riverside County has

created three other project areas which are each in excess of 1,100 acres.

POLICY QUESTIONS: HOW CAN THE LEGISLATURE ENFORCE ITS PROHIBITION AGAINST "BARE LAND PROJECTS"?

SHOULD A STATE AGENCY SIT ON EVERY FISCAL REVIEW COMMITTEES AND EXAMINE ALL NEW PROJECT AREAS AND AMENDMENTS TO ENSURE THAT LOCAL OFFICIALS OBEY THE LAW?

IF SO, WHICH STATE AGENCY SHOULD THE LEGISLATURE PICK?

ARE THERE PROCEDURAL REFORMS THAT THREATEN LAWSUITS AND IMPROVE THE SELF-ENFORCING ASPECT OF CURRENT LAW? FOR EXAMPLE, SHOULD THERE BE A LONGER DEADLINE FOR FILING LAWSUITS?

AFFORDABLE HOUSING

Legislative policy declares that "the provision of housing is itself a fundamental purpose of the Community Redevelopment Law and that a generally inadequate statewide supply of decent, safe, and sanitary housing affordable to persons and families of low or moderate income...threatens the accomplishment of the primary purposes of the...Law." To fulfill this state policy, the Legislature requires redevelopment agencies to set-aside 20% of their property tax increment revenues for affordable housing.

One of the most significant --- and still controversial --- changes to the Community Redevelopment Law was the passage of AB 3674 (Montoya) in 1976. All redevelopment projects set up or amended after January 1, 1977 must set aside 20% of their property tax increment revenues to support low and moderate income housing. In 1985, the Legislature extended this 20% set-aside requirement to older redevelopment projects (AB 265, Hughes, 1985).

Although critics often blame redevelopment agencies for destroying affordable housing, a 1984 report found a significant net increase in the supply of housing. The gains occurred with low income and other units, while very low income units suffered a pronounced loss. Similar patterns persist, according to the annual reports published by the State Department of Housing and Community Development. The Table on the following page reports the 1984 findings.

REDEVELOPMENT'S EFFECT ON HOUSING SUPPLY

	VERY LOW INCOME	LOW INCOME	OTHER	TOTAL
Units eliminated	11,957	12,335	3,139	27,431
Units provided	6,062	26,796	19,611	52,469
Net change	-5,895	+14,461	+16,472	+25,038

[Source: CDAC Report, 1984]

Exemptions. A post-1976 agency can avoid the 20% set-aside requirement by making one or more of the following findings:

- There is no need to improve or increase the supply of affordable housing.
- A lesser percentage is sufficient to meet local affordable housing needs.
- The community is already making a substantially equivalent effort to assist affordable housing.

All of these findings must be consistent with the housing element in the local general plan. In addition to these three findings, older agencies can defer their obligations if the tax increment revenues are needed to pay for "existing obligations" or to complete current projects. These deferred payments become a debt of the agency and must be paid in the future.

In 1987-88, 13 project areas used the "no need" finding, 11 made the "lesser amount" finding, and 58 used the "substantial effort" finding. Of the 214 older (pre-1977) projects, 73 found that "existing obligations" kept them from setting-aside their required 20%. Another 62 projects exempted themselves because the revenues were needed to complete current projects. Fully 123 projects indicated that they were not setting aside any incremental revenues. The failure of the other 71 older project areas to report on their status "may be due to a misinterpretation of the ... mandate," according to state housing officials.

POLICY QUESTIONS: HOW CAN REDEVELOPMENT AGENCIES EXEMPT THEMSELVES FROM THE 20% SET-ASIDE MANDATE IF THEIR CITY OR COUNTY DOES NOT HAVE AN ADEQUATE LOCAL HOUSING ELEMENT?

WHICH CITIES AND COUNTIES LACK ADEQUATE HOUSING ELEMENTS?

HOW CLOSELY DO STATE OFFICIALS MONITOR LOCAL EXEMPTIONS?

Available funds. Redevelopment agencies must place their set-aside revenues into a special Low and Moderate Income Housing Fund. The State Department of Housing and Community Development tracks the status of these local Funds. For the 1987-88 fiscal year, the Department reported the following figures.

LOW AND MODERATE INCOME HOUSING FUND STATUS

Beginning balance (7-1-87)	$242,011,332
Revenues added during 1987-88	$155,369,045
Tax increments added (included)	$76,281,245
Expenditures during 1987-88	$164,721,063
Ending balance (6-30-88)	$232,659,314
Deferred payments	$13,074,546
Funds available	$170,222,742

[Source: HCD Report, 1987-88]

The Department is concerned about the accuracy of its figures, based on reporting problems and a double-counting of accounts receivable. HCD plans to correct these problems in future reports.

POLICY QUESTION: IS LEGISLATION NEEDED TO IMPROVE THE STATE'S REPORTS ON LOW AND MODERATE INCOME HOUSING FUNDS?

Performance. Besides counting affordable housing dollars, state officials also track the use of these funds. According to the Department:

> Redevelopment agencies reported that 1,808 housing units were assisted by expenditures from L&M Funds [Low and Moderate Income Housing Funds] during Fiscal Year 1987-88. Almost 28% of those units were affordable to very low-income households; 47% to low-income; and the remainder (almost 26%) to moderate-income households.

In addition, the Department learned that redevelopment agencies' activities resulted in a net increase of 7,470 housing units during 1987-88. About 20% were very low-income, 39% low-income, 14% moderate-income, and 27% to above-moderate income households. Redevelopment agencies also reported subsidizing 3,858 housing units, although the

exact nature of these subsidies is not known.

POLICY QUESTION: REDEVELOPMENT OFFICIALS SPENT $165 MILLION ON 1,808 HOUSING UNITS IN 1987-88. SHOULD THERE BE MORE PRODUCT FOR THIS COST?

Use-it-or-lose-it. Housing advocates and other redevelopment critics complained for many years that redevelopment agencies had allowed large balances to build up in their Low and Moderate Income Funds. In 1985-86, for example, redevelopment agencies deposited $142 million into their affordable housing accounts but spent just $59 million. The Deukmejian Administration sponsored and the Legislature passed the "Polanco-Ferguson Housing Assistance Act" (AB 4566, Polanco, 1988). Observers call this measure the "use-it-or-lose-it bill."

If a redevelopment agency ends the fiscal year with an "excess surplus" in its Low and Moderate Income Housing Fund, the agency must adopt a housing plan which indicates how it will spend the money over the next five years. An "excess surplus" is the greater of $500,000 or the total deposits over the last five years. If the agency fails to spend its excess surplus or fails to adopt the required plan, it must transfer the surplus to a local housing authority. The housing authority then assumes the redevelopment agency's duty for spending the money, following the same requirements that apply to the agency.

POLICY QUESTIONS: ARE REDEVELOPMENT AGENCIES SPENDING MORE OF THEIR SET-ASIDE FUNDS TO AVOID THE USE-IT-OR-LOSE-IT REQUIREMENT?

ARE REDEVELOPMENT OFFICIALS STARTING TO ADOPT THEIR NEW HOUSING PLANS?

WHO WILL MONITOR THE IMPLEMENTATION OF THE POLANCO-FERGUSON ACT?

Spending housing funds outside project areas. To be consistent with the California Constitution, state law generally requires redevelopment officials to spend the property tax increment revenues generated from a particular project area solely within that project area. But the Legislature has allowed redevelopment officials some flexibility.

Redevelopment agencies in the largest cities and counties (over 600,000 population) can finance the construction of multifamily rental housing outside of a project area, but within the boundaries of the city or county. Originally allowed in 1980, the Legislature has extended this authori-

zation five times. The current authorization "sunsets" on January 1, 1991 (AB 466, Polanco, 1987).

POLICY QUESTIONS: SHOULD THE LEGISLATURE EXTEND THE AUTHORITY FOR MULTIFAMILY HOUSING OUTSIDE REDEVELOPMENT PROJECT AREA FOR ANOTHER THREE YEARS?

SHOULD THE LEGISLATURE MAKE THIS AUTHORIZATION PERMANENT?

Spending housing funds outside the city. There is no statutory authority for redevelopment agencies to spend funds outside the city or county in which they were generated. As part of a negotiated settlement to a lawsuit, the City of Indian Wells sponsored legislation in 1988 which would have allowed it to use its Low and Moderate Income Housing Funds outside the city limits (SB 1719, Presley, 1988). When Governor Deukmejian vetoed SB 1719, he called it "special exemption" which would set a precedent to spend redevelopment funds outside the originating jurisdiction. "It would be difficult to deny other jurisdictions similar relief in the future," the Governor said. He continued, "I believe the appropriateness of this practice should be reviewed on a statewide basis to determine whether it is beneficial to all communities and within the purview of the Constitution."

To evaluate allowing all redevelopment agencies to spend their 20% set-aside money outside their city limits or county boundaries, the Committee needs to consider two questions:

- Can the Legislature authorize the practice and still be consistent with the California Constitution?

- If so, which statutory limits should the Legislature impose on the use of redevelopment funds for housing outside the originating community?

If the Constitution allows the Legislature to authorize redevelopment agencies to spend their Low and Moderate Income Housing Funds outside the originating community, then the Committee may wish to consider imposing these conditions on the "originating" community and "receiving" community:

- The originating and receiving communities must enter a mutually acceptable binding contract that spells out their obligations.

- If a county is the originating community, the receiving community must be a city within that county.

- If the originating and receiving communities are both

cities, they must be in the same county.

- The originating community must be contiguous with the receiving community, or the development of housing in the receiving community will improve the "jobs/housing balance" in the originating community.

- Both the originating and receiving communities must have valid housing elements that commit them to providing their fair share of the region's housing need.

- The transfer between the communities must have the approval of the council of governments to insure that regional housing goals are still being met.

- The funds from the originating community will be used solely to assist the construction and subsequent maintenance and operation of affordable housing in the receiving community.

- The use of the originating community's funds in the receiving community must result in a greater number of affordable housing units than if the funds had been used in the the originating community.

- Both communities can agree to other mutually acceptable, binding conditions.

POLICY QUESTION: UNDER WHICH CONDITIONS IS THE LEGISLATURE WILLING TO ALLOW A REDEVELOPMENT AGENCY TO USE ITS LOW AND MODERATE INCOME HOUSING FUNDS OUTSIDE CITY LIMITS OR COUNTY BOUNDARIES?

SETTING LIMITS

Concerned that redevelopment officials were using their extraordinary powers without much restraint, the Legislature passed AB 3674 (Montoya, 1976). The bill required all new redevelopment plans to set three specific limits:

- A limit on the amount of tax increment revenues.
- A time limit on indebtedness.
- A 12-year limit to begin using eminent domain.

If a redevelopment agency wants to extend these limits, it must amend its original redevelopment plan. But critics contended that the procedures for amending plans was easier than for adopting new plans. They argued that an agency could establish a modest project area and then easily expand it

with unsupervised amendments. The ease of extending redevelopment projects almost indefinitely prompted one wag to call redevelopment "the closest thing to perpetual motion ever invented by the Legislature."

As part of AB 203 (Hannigan, 1984) the Legislature required redevelopment officials to follow the same procedures for adopting a plan (including a fiscal review committee) if they wanted to amend their plans in any one of six significant ways:

- Add territory to the project area.
- Increase the amount of tax increment revenues.
- Extend the time period for indebtedness.
- Extend the duration of the project.
- Merge one project area with another.
- Add additional public works projects.

But some county officials still worried that there were no limits on pre-1976 project areas. They saw these older projects as "open-ended plans," continually diverting tax increment revenues without any end in sight. SB 690 (McCorquodale, 1985) required city councils and county boards of supervisors which had older redevelopment plans to adopt ordinances setting limits on tax increments, indebtedness, and eminent domain.

POLICY QUESTION: HAVE THESE LIMITS MADE ANY DIFFERENCE IN REDEVELOPMENT AGENCIES' OPERATIONS?

DO THE LIMITS REASSURE RESIDENTS, PROPERTY OWNERS, AND COUNTY OFFICIALS?

DID LOCAL ELECTED OFFICIALS EVER ADOPT LIMITS FOR THEIR OLDER PROJECTS?

STATEMENTS OF INDEBTEDNESS

Property tax increment revenues go to redevelopment agencies "to pay the principal and interest on loans, moneys advanced to, or indebtedness (whether funded, refunded, assumed, or otherwise) incurred by [the] redevelopment agency to finance or refinance ... [the] redevelopment project." Redevelopment agencies receive their annual tax increment payments by filing a detailed **statement of indebtedness** with the county auditor. The statement of indebtedness must explain:

- When the redevelopment agency incurred its debts.
- The amount, term, purpose, and interest rate of its debts.

- The outstanding balances and amounts due.

If the county auditor accepts the agency's statement, county officials must pay the tax increment revenues to the redevelopment agency. But if the auditor disputes the agency's claim, then the auditor has 30 days to notify redevelopment officials. They then have another 30 days to turn in additional information substantiating the claim. If the county auditor is still not convinced, he or she can withhold the disputed amount and file a "declaratory relief" lawsuit. The only issue before the court is the **amount, not the validity** of the debt or any related expenditures.

In 1984-85, redevelopment agencies received $416.3 million in tax increment revenues. By 1987-88, this amount had grown to $752.0 million. During the same period of time, the agencies' indebtedness also grew rapidly: from $5.3 billion to nearly $13 billion. The following Table reveals this trend.

INCREASES IN TAX INCREMENT REVENUES AND TOTAL DEBT

	1984-85	1985-86	1986-87	1987-88
REVENUES (millions)	$416.3	$528.4	$645.2	$752.0
DEBT (billions)	$5.26	$6.91	$11.12	$12.90

[Source: Controller's Reports]

Faced with increasing claims for property tax increment revenues, county auditors have begun to examine redevelopment agencies' statements of indebtedness more closely. Some county officials think that redevelopment agencies overstate their debts to get additional revenues. They are concerned that debts listed on one annual statement appear in far different forms in subsequent years. Los Angeles County even sued the redevelopment agencies in Bell, Lancaster, and Rosemead over this issue.

Attempting to force redevelopment agencies to report more detailed claims, counties sponsored AB 3174 (Cortese, 1986). Assemblyman Cortese's bill would have increased the amount of fiscal information that redevelopment officials have to file before receiving tax increment payments. Although a conference committee worked out a compromise between redevelop-

ment agencies and counties, the Assemblyman chose not to pursue his bill.

In Marek v. Napa Community Redevelopment Agency, the California Supreme Court found that the county auditor is "a kind of guardian of tax increment revenues...in only the most limited sense." The auditor must make sure that the total amount of tax increment payments do not exceed the agency's total debts. But until these debts are paid off, the county auditor must continue to pay the agency "all available tax increment funds." The 1988 Marek decision also concluded that a "disposition and development agreement" (DDA) between a redevelopment agency and a developer was a type of indebtedness for which tax increment revenues could be claimed. After the Marek decision, counties sponsored AB 2374 (Cortese, 1989) to increase their vigilance over statements of indebtedness. The bill is still in the Assembly.

POLICY QUESTIONS: HOW DO REDEVELOPMENT OFFICIALS EXPLAIN LARGE YEARLY DIFFERENCES IN THEIR STATEMENTS OF INDEBTEDNESS?

SHOULD A COUNTY AUDITOR (OR SOME OTHER PUBLIC OFFICIAL) BE ABLE TO QUESTION THE SUBSTANCE OF THESE STATEMENTS, NOT JUST THE AMOUNTS?

IS IT POSSIBLE TO REVIEW THESE DEBTS WITHOUT JEOPARDIZING PRIVATE INVESTORS' CONFIDENCE IN REDEVELOPMENT AGENCIES?

FISCAL REVIEW COMMITTEES

Since the mid-1970s, officials from counties, schools, and special districts have been able to form **fiscal review committees** to examine how redevelopment proposals might affect their own finances. Strengthening the review of redevelopment proposals was widely hailed by these local officials as one of the most significant features of the 1984 statutory reforms. AB 203 (Hannigan, 1984) expanded the amount of detailed information which is available to a fiscal review committee.

A fiscal review committee's work sets the stage for negotiations over sharing property tax increment revenues. Redevelopment agencies can share their tax increment revenues with other local governments if their projects cause financial burdens.

Financial detriment. These so-called "pass through agreements" ostensibly offset any "financial burden or

detriment." Detriment is either: (1) an increase in the quality or quantity of services caused by redevelopment, or (2) a loss of property tax revenues which would have been received "or was reasonably expected to have been received" if the redevelopment had not occurred. Tax increment financing, by itself, does not qualify as a financial burden or detriment.

This 1984 definition began as a tentative political compromise between counties and redevelopment officials. Both sides were initially reluctant to make the agreement permanent, so the 1984 bill contained a "sunset clause," automatically terminating the definition in 1987. But the Legislature extended the sunset date to 1989 (AB 3055, Hannigan, 1986) and then again until 1991 (SB 2740, Kopp, 1988). In 1989, counties sponsored legislation which attempted to require redevelopment agencies to share their tax increment revenues based on an historic rate of growth in property values (SB 998, Presley, 1989). That bill is still in the Assembly Housing and Community Development Committee.

POLICY QUESTIONS: SHOULD THE LEGISLATURE EXTEND THE DEFINITION OF "FINANCIAL BURDEN OR DETRIMENT" FOR ANOTHER TWO OR THREE YEARS?

SHOULD THE LEGISLATURE MAKE THE DEFINITION PERMANENT?

ARE THERE OTHER RELATED REFORMS WHICH SHOULD ACCOMPANY A BILL MAKING THIS DEFINITION PERMANENT?

Adequate information. When a fiscal review committee reviews a proposal, it prepares a detailed report based on seven specific sources of information which are listed in state law. Counties had claimed that some redevelopment agencies were withholding information on development plans to keep county officials from negotiating larger pass-through agreements. Redevelopment officials countered that these plans are confidential business dealings. The Legislature responded by requiring a redevelopment agency to provide the fiscal review committee with "all the written information it possesses" about development, except for trade secrets or contractors' financial conditions (SB 2740, Kopp, 1988).

POLICY QUESTION: HOW HAS THE 1988 DISCLOSURE REQUIREMENT CHANGED NEGOTIATIONS FOR PASS-THROUGH AGREEMENTS?

Pass-through agreements. Redevelopment agencies share about 7% of their property tax increment revenues with other local governments, as the following Table reports.

DISTRIBUTION OF TAX INCREMENT REVENUES, 1987-88

Redevelopment agencies	$752.0*	93.2%
Counties	34.2	4.2
Special districts	12.4	1.5
School districts	4.8	0.6
Other agencies	2.1	0.3
Cities	0.7	<0.1
Community colleges	0.5	<0.1
Totals:	$807.0*	100.0%

* - millions

[Source: Controller's Report, 1987-88]

These agreements can occur under two different sections of the Community Redevelopment Law. The details of these pass-through agreements vary, depending on local fiscal and political circumstances. In some cases, the amount that is shared remains constant over the life of the project but in other situations, the amount increases over time. A 1984 study commissioned by the California Debt Advisory Commission noted these other variations:

- Pass-through of all incremental revenues which are greater than a projected revenue stream.
- Agency assumes maintenance or service costs which are directly related to the redevelopment project.
- Pass-through of increments generated by inflation, new construction which is not related to redevelopment, and changes in ownership.
- Agency agrees to pay for specific public works.
- Pass-through to schools if state funding drops.

The California Redevelopment Agencies Association reports that redevelopment officials have entered pass-through agreements with counties in all but one of the 159 adopted project areas and amendments since November 1984. The Association adds that:

> every pass-through agreement acknowledges that terms of the agreement effectively eliminates any financial detriment to the County that would otherwise be caused by the adoption of the redevelopment plan and/or the county forgoes any right to contest the establishment of the redevelopment project.

While counties appear to be successful in their attempts to negotiate pass-through agreements, some school districts and special districts have not enjoyed the same degree of success. A 1984 study commissioned by the California Debt Advisory Commission examined 115 redevelopment projects that had pass-through agreements. Local officials reported having agreements with counties 77% of the time, with schools 33%, water districts 30%, flood control districts 27%, fire districts 25%, and with other districts 33%.

In recent years, the Yolo County Flood Control and Water Conservation District and mosquito abatement districts in Butte and Riverside counties have complained to the Senate Local Government Committee about redevelopment's fiscal effects. Like most "non-enterprise" special districts, these agencies rely almost exclusively on property tax revenues. When a redevelopment agency freezes a special district's share of local property tax revenues, it may not have any alternative way of raising revenue to meet the service demands stimulated by the redevelopment activity.

POLICY QUESTIONS: WHY DON'T SPECIAL DISTRICTS NEGOTIATE MORE PASS-THROUGH AGREEMENTS WITH REDEVELOPMENT AGENCIES?

DO THE CURRENT NEGOTIATING PROCEDURES FAVOR COUNTIES TO THE DETRIMENT OF DISTRICTS?

Second chances. When schools and fire districts complained that they were not successful in reaching pass-through agreements on older redevelopment projects. The Legislature agreed to give them a second chance. Under SB 327 (L. Greene, 1986) and SB 851 (McCorquodale, 1987), school districts and fire protection districts which believe that existing redevelopment projects create new service burdens can require redevelopment agencies to hold a public hearing to air these complaints. The agencies can agree to pass-through some tax increment revenues.

POLICY QUESTIONS: HAVE SCHOOLS AND FIRE DISTRICTS EVER USED THE BILLS WHICH GIVE THEM A SECOND CHANCE TO NEGOTIATE PASS-THROUGH AGREEMENTS?

SHOULD ALL LOCAL GOVERNMENTS HAVE THE SAME SECOND CHANCE THAT

SCHOOLS AND FIRE DISTRICTS HAVE?

EFFECTS ON SCHOOL FINANCE

No one disputes the existence of a State General Fund subsidy to redevelopment agencies. But the amount and the effects are subjects of bitter controversy.

State law guarantees school districts and community college districts minimum funding levels based on statutory formulas. Normally, schools receive their proportionate share of local property tax revenues, including their share of higher revenues that result from growth in property values. If these local revenues are less than a school district's minimum funding level, state school apportionments fill the gap. But when redevelopment agencies which overlap school districts use tax increment financing, the agencies siphon off the incremental revenues. State school apportionments must make up the difference.

In 1988, the Legislative Analyst projected that "the 'normal' school share of redevelopment agency property tax revenue could reach roughly **$400 million.**" The following Table reports the Analyst's estimates and projections.

NORMAL SCHOOL SHARE OF PROPERTY TAX REVENUES ALLOCATED TO REDEVELOPMENT AGENCIES

1984-85	1985-86	1986-87	1987-88	1988-90	1989-90
$128 M	$162 M	$209 M	$260 M	$322 M	$400 M

To support her projections, the Legislative Analyst had to answer two key questions:

- Can all of the increase in the assessed value in project areas be attributed to redevelopment agencies' activities?
- Was the full amount of tax increment revenue needed to achieve these increases?

The Analyst offered four findings to suggest that the answer to the first question is "no." First, property values grow at a 2% inflationary rate under Proposition 13 even in the absence of redevelopment. Second, project areas often include land for which no redevelopment is planned; agencies

capture the increases in property values without taking any action. Third, some construction may occur inside a project area independently of the redevelopment agency or the agency may shift development into the project area that would have occurred somewhere else. Fourth, redevelopment agencies may spend their revenues on activities that are not directly related to eliminating blight.

The Analyst then concluded that she had "no way of determining what portion of the growth in project-area assessed values is attributable to" these four factors. Instead of calculating a specific estimate of state funds needed to replace schools' property tax revenues, the Analyst estimated what the schools would have received if redevelopment projects had not existed. She called this schools' "normal share" of property tax revenues.

The Analyst's approach overstates the state's burden but it provides a useful guide to the outer limit of the state's cost. In addition, it is helpful in tracking annual changes. As the Analyst pointed out, the annual growth rate in property tax increment revenues over the five-year period from 1981-82 to 1986-87 was 24%. This is significantly higher than the statewide average rate for overall property tax revenues.

Redevelopment advocates strongly objected to the Legislative Analyst's methodology and her conclusions, raising nine specific comments. The contentiousness of this argument demonstrates that even knowledgeable observers disagree over fundamental concepts of redevelopment. Should all increases in property values be attributed to redevelopment activities? If not all increases, then which types of growth are clearly the result of redevelopment and which would have happened regardless of redevelopment?

Pass-through agreements. In 1987-88, redevelopment agencies reported that they sent $4.8 million in property tax increment revenues to schools. That is 0.6% of all incremental revenues. It is not clear whether school districts count these funds as part of their local property tax revenues. If they do, then these pass-though payments would help to offset the need for higher state apportionments to schools.

POLICY QUESTIONS: SHOULD THE COMMITTEE REQUEST AN ATTORNEY GENERAL'S OPINION ON WHETHER SCHOOL DISTRICTS SHOULD COUNT REDEVELOPMENT PASS-THROUGH REVENUES AS LOCAL PROPERTY TAX REVENUES?

IS CLARIFYING LEGISLATION NEEDED?

Proposition 98. In November 1988, the voters amended the California Constitution by passing Proposition 98. The constitutional amendment established a minimum required level of state funding for schools and community colleges. Schools must receive the higher of these two amounts:

"Test 1" is approximately 40% of State General Fund revenues.

"Test 2" is the previous year's combined state and local funding per pupil, adjusted for inflation.

The diversion of property tax increment revenues from school districts to redevelopment agencies does not change the state's obligation under Test 1 because the funding requirement is still a fixed percentage of General Fund revenues. But under Test 1 redevelopment reduces the amount of state funding for school programs which are outside the basic school apportionments.

Under Test 2, the State General Fund must pay more to school districts to replace the local revenues diverted to redevelopment agencies. While Test 1 applies during 1989-90, it is likely that Test 2 will apply during 1990-91.

POLICY QUESTIONS: HOW DOES TAX INCREMENT FINANCING AFFECT SCHOOL DISTRICTS UNDER "TEST 1" AND "TEST 2" OF PROPOSITION 98?

IF THERE ARE SIGNIFICANT DIFFERENCES, IS LEGISLATION NEEDED TO MODIFY THE SHIFTS?

School developer fees. School districts can impose developer fees on residential and commercial projects, including construction in redevelopment project areas (AB 2926, Stirling, 1986). State law limits these fees to $1.50 a square foot for residential development and $0.25 for commercial construction. These limits increase every two years to keep up with inflation. Redevelopment agencies contend that pass-through agreements provide school districts with sufficient revenues to alleviate any fiscal burdens that a project area might cause a school district. To the agencies, paying school developer fees on top of pass-through revenues gives school districts more money than they need.

Attempts to limit school developer fees within redevelopment project areas were unsuccessful in 1987 and 1988. Legislators tried to limit school developer fees in project areas to the statutory maximum minus the value of the agency's contribution to financing school construction. Although this pro-

vision was noncontroversial, other more contentious provisions of the bills led to their demise (SB 97, Bergeson, 1987 and AB 112, Campbell, 1988).

When the same language appeared in AB 181 (Campbell, 1989), the Long Beach Unified School District opposed the bill. The District contended that the bill would prohibit it from levying any developer fees in a redevelopment project area. As an alternative to deleting the language, the District suggested making the provision prospective. The State Department of Finance also objected, arguing that any reduction in local school developer fees would increase demands on the State School Building Lease-Purchase Fund. Because of these objections, Assemblyman Campbell deleted that provision from AB 181; the bill was enacted.

POLICY QUESTION: SHOULD THE LEGISLATURE LIMIT THE AMOUNT OF SCHOOL DEVELOPER FEES WITHIN PROJECT AREAS WHERE PASS-THROUGH AGREEMENTS EXIST?

GOVERNANCE

Local elected officials rarely delegate their redevelopment powers to appointed bodies. More than 95% of California's redevelopment agencies are governed by city councils and county boards of supervisors. In only 14 communities have elected officials decided to appoint others to run their redevelopment agencies:

Avalon	Los Angeles County	Sacramento
Escondido	Oceanside	San Bernardino
La Palma	Pasadena	San Francisco
Long Beach	Rohnert Park	Santa Rosa
Los Angeles		Tulare

Elected officials delegate their redevelopment powers to appointed officials by passing a local ordinance. An appointed redevelopment agency has five members and can be expanded to seven members. The appointees serve four-year terms but they may be removed for "inefficiency, neglect of duty, or misconduct in office" after a public hearing.

Before a city council or county board of supervisors declares itself to be the redevelopment agency, it must make specific findings, hold a public hearing, and adopt a formal ordinance. Once it has named itself as the redevelopment agency, a city council or county board can delegate many of its duties to a seven-member "community redevelopment commission." The elected officials decide how to appoint and re-

move their commissioners.

Some critics contend that appointed redevelopment agencies are not sufficiently accountable to the communities in which they operate. But these appointed bodies are accountable to the local elected officials who appoint them. Further, the city council or county board of supervisors can always repeal the ordinance which created the appointed redevelopment agency or redevelopment commission. In other words, local elected officials can still reassert direct control over redevelopment activities.

POLICY QUESTIONS: SHOULD THE LEGISLATURE END THE PRACTICE OF ALLOWING LOCAL ELECTED OFFICIALS TO DELEGATE THEIR REDEVELOPMENT POWERS TO APPOINTED OFFICIALS?

OR, SHOULD THE LEGISLATURE CONTINUE TO ALLOW LOCAL OFFICIALS TO HAVE THIS FLEXIBILITY?

Compensation. City councils in cities with populations over 200,000 people can set the amount of compensation paid to those who govern their redevelopment agencies. However, for all counties and for cities of 200,000 or less population, state law limits compensation to $30 a meeting. In addition, redevelopment agencies may pay governing bodies their actual and necessary expenses. The law also limits the number of compensated meetings to four a month. The Legislature last raised the statutory limit on redevelopment agencies' compensation in 1973.

In 1987, the Senate Local Government Committee reviewed two bills which would have raised compensation for those who govern redevelopment agencies. SB 353 (Kopp, 1987) went to a Conference Committee but did not emerge. The Kopp bill would have "deregulated" redevelopment agencies' compensation. AB 1057 (Hauser, 1987) would have raised redevelopment agencies' compensation in three tiers. The Committee did not pass the Hauser bill, releasing it only after the bill was amended to apply to a different topic.

Concerned with conflicting approaches to redevelopment agency compensation, the Committee held an interim hearing in October 1987 on "deregulating local officials' compensation." Because city councilmembers and county supervisors govern their own redevelopment agencies, some legislators thought that current law allowed **"double-dipping."** That is, local elected officials draw compensation from two sources for doing what appears to be essentially one job.

POLICY QUESTIONS: SHOULD THE LEGISLATURE RAISE

REDEVELOPMENT AGENCIES' COMPENSATION?

SHOULD THE LEGISLATURE PROHIBIT LOCAL ELECTED OFFICIALS FROM RECEIVING COMPENSATION FOR GOVERNING REDEVELOPMENT AGENCIES?

CITIZEN PARTICIPATION

As part of its redevelopment reforms in the late 1970s, the Legislature expanded the opportunities for public participation in redevelopment decisions. Presently, the Community Redevelopment Law offers three main ways for citizens to participate:

- Public testimony at hearings.
- Referenda on key decisions.
- Project area committees.

Public hearings. State law requires redevelopment agencies to hold extensive public hearings before making decisions. These hearings are much like other sessions conducted by local officials. Public notices announce the time and place of the hearing and citizens have an opportunity to comment on the impending decision. Like other public hearings, the political momentum starts to build before the formal hearing and public opinion may run strong.

In some Southern California communities vehement opposition to redevelopment projects has blossomed at these public hearings. Although unpleasant experiences for some public officials, the hearings have altered redevelopment plans in some communities. Assisted by anti-redevelopment activist Sherry Passmore, residents and landowners in both Huntington Beach and Anaheim recently used these hearings to convince city officials to scuttle redevelopment proposals. Residents particularly feared the agencies' possible use of eminent domain to shift property ownership to commercial developers.

POLICY QUESTION: DOES CURRENT LAW BALANCE THE NEED FOR EFFICIENT GOVERNMENT ACTION WITH THE NEED FOR CITIZEN PARTICIPATION?

Referenda. Traditionally, only the legislative acts of local governments are subject to the voters' review through referenda. Administrative acts, those in which local officials carry out state policy to fit local circumstances, are not usually subject to referenda. When the state has fully occupied the field and has not provided for voter review, then local referenda are not possible. Until 1977, local voters could referend an ordinance "activating" a redevelopment

agency but not the ordinance adopting a redevelopment plan. The courts had held that the adoption of a redevelopment plan by local officials was a state activity. Redevelopment actions were, therefore, administrative and not legislative decisions. Local voters could not referend the adoption of a redevelopment plan.

The Legislature changed the law in 1977 and provided that an ordinance adopting or amending a redevelopment plan was referendable, just like other local ordinances. That change allowed local voters to review this key redevelopment decision by mounting a referendum. Although a comprehensive list of redevelopment referenda does not exist, recent examples include elections in Benecia, Gilroy, Moorpark, and San Bruno.

Some critics of redevelopment believe that voters should be able to review other key redevelopment decisions. AB 1865 (Hauser, 1989) would permit initiatives and referenda on existing redevelopment projects as long as the elections would not affect outstanding bonded debts.

POLICY QUESTION: SHOULD THE LEGISLATURE WIDEN THE APPLICATION OF INITIATIVES AND REFERENDA TO EXISTING REDEVELOPMENT PROJECTS?

Project area committees. For the past 20 years, state law has required redevelopment officials to invite residents and property owners to form **project area committees** or "PACs." In addition to being an organized forum for citizen participation, a PAC plays a key role in the adoption and amendment of redevelopment plans. Redevelopment officials must send a proposed plan or proposed amendment to the PAC for review.

If a PAC approves a redevelopment plan, local officials can go ahead and adopt the plan by majority vote. But if the PAC opposes the plan, the city council or county board of supervisors may still adopt the plan but only with a 2/3 vote of its members. The same procedures apply to amendments to existing redevelopment plans.

Although public officials must facilitate the formation of these committees, the PACs are supposed to be self-governing. Cities and counties (not their redevelopment agencies) finance the PACs' operations, including office space, supplies, staff, and legal counsel. This mixture of political independence and fiscal dependence poses dilemmas in some redevelopment projects. Local officials must pay for the PAC's operations but the PAC is an independent critic of the redevelopment agency.

One of the more celebrated controversies is the struggle between the Los Angeles Community Redevelopment Agency and the PAC for the Hollywood Project Area. In litigation that drew attention from national magazines, PAC members accused the redevelopment agency of acting fraudulently and violating state law. The case involved one of Southern California's better known anti-redevelopment activists, attorney Chris Sutton. But the Los Angeles County Superior Court's January 1989 ruling favored the Agency, not the citizens. The plaintiffs appealed and the case is still pending.

POLICY QUESTIONS: ARE THE "PACs" SUFFICIENTLY INDEPENDENT OR ARE THEY MERELY EXTENSIONS OF THE AGENCIES THEY ARE SUPPOSED TO REVIEW?

ARE REFORMS NEEDED TO IMPROVE THE WORK OF PROJECT AREA COMMITTEES?

Conflicts of interest. In its 1976 Bonfa opinion, the Fair Political Practices Commission (FPPC) concluded that members of PACs were not "public officials" under the Fair Political Practices Act. Therefore, PAC members were not subject to the Act's requirements for financial disclosure and disqualification provisions. But the FPPC reversed its earlier Bonfa opinion by issuing its Rotman opinion in 1986. The Commission now regards PAC members as public officials because they are members of a local government agency which makes decisions. A PAC's review of a proposed redevelopment plan or amendment is no mere recommendation. If a PAC disapproves of a plan or an amendment, local elected officials can proceed only with a 2/3 vote. The PAC has real political power.

The FPPC's Rotman opinion now means that PAC members must file financial disclosure documents. Further, they must disqualify themselves from participating in a PAC decision "if the decision will have a reasonably foreseeable material financial effect on a member's economic interests which is distinguishable from the effect on members of the public within the redevelopment project area." This 1986 opinion concerned some PACs who wanted the Legislature to overrule the FPPC.

There are two statutory alternatives. The Legislature can either specifically exempt PACs from the Fair Political Practices Act or take away PACs' decision-making power. This second alternative would require the Legislature to reduce local elected officials' override from a 2/3 vote to just a majority vote.

POLICY QUESTION: SHOULD THE LEGISLATURE REDUCE THE PACs' INFLUENCE OVER REDEVELOPMENT PROJECTS IN ORDER TO REMOVE THEM FROM THE FAIR POLITICAL PRACTICES ACT'S REQUIREMENTS?

REPORTING REQUIREMENTS

When the Senate Local Government Committee held its 1982 hearings on redevelopment issues, it discovered that the Legislature lacked reliable sources of current and detailed information about redevelopment agencies. The only statewide information came from a 1975 report commissioned by a group of Southern California redevelopment directors. There was no complete statewide record of how many redevelopment agencies or project areas even existed, let alone how much tax increment money or housing units were involved. The State Controller's Financial Transactions reports contained only fragmentary information about some redevelopment agencies. The Legislature responded by commissioning three studies.

Developable lands. AB 3937 (Farr, 1984) required the Governor's Office of Planning and Research (OPR) to study a representative sample of cities and counties and report on the amount of developable land. The Farr bill set December 31, 1985 as the deadline for OPR to identify this land, describe its characteristics, explain any financing problems, check for general plan consistency, and report on service demands. In January 1986, OPR published Challenges To Local Development: Overcoming Barriers. No other agency or trade association has duplicated the OPR study.

POLICY QUESTION: SHOULD THE LEGISLATURE ASK O.P.R. TO PREPARE A NEW REPORT OR SHOULD IT REPEAL THIS 1984 REQUEST?

Statewide survey. SB 936 (McCorquodale, 1983) required the California Debt Advisory Committee, an arm of the State Treasurer, to conduct a study of redevelopment agencies and report back to the Legislature by October 1984. The Commission hired the consulting firm of Ralph Andersen and Associates to prepare the study, The Use of Redevelopment and Tax Increment Financing by Cities and Counties. The CDAC study was the first official statewide inventory of redevelopment agencies and their activities. The 1984 report was generally well received by redevelopment observers who regularly use its findings.

POLICY QUESTION: SHOULD THE LEGISLATURE ASK C.D.A.C. TO PREPARE A NEW REPORT OR SHOULD IT REPEAL THIS 1983 REQUEST?

Annual reports. SB 1387 (Marks, 1984) required all redevelopment agencies to file annual reports with the State Controller and the State Department of Housing and Community Development (HCD). The State Controller had collected information from redevelopment agencies that used tax increment financing, but their compliance was not universal and the Controller reported the results in a publication that focused on special districts.

Redevelopment agencies now report detailed information about their fiscal activities and housing programs. The Controller collects the fiscal information and prints a separate publication just for redevelopment agencies. The Marks bill required HCD to publish a similar report on housing activities. The Controller's annual reports are called Financial Transactions Concerning Community Redevelopment Agencies of California. HCD's publication is titled, Redevelopment Agencies in California: The Effect of Their Activities on Housing. The first results appeared in 1986, covering the 1984-85 fiscal year.

In its 1987-88 report, HCD noted that 34 redevelopment agencies failed to report to the Department as required by state law. The following Table lists the recalcitrant agencies.

AGENCIES WHICH FAILED TO FILE REQUIRED REPORTS

Atwater	Glendora	San Juan Capistrano
Carson	Huron	Santa Barbara
Coachella	Kingsburg	Sausalito
Cypress	LaCanadaFlintridge	Seal Beach
Dos Palos	Moorpark	Sierra Madre
Duarte	Norwalk	South Lake Tahoe
El Cerrito	Novato	Tiburon
El Paso Robles	Oxnard	Ukiah
Folsom	Pismo Beach	Wasco
Fort Bragg	Pinole	Willits
Fowler	Redlands	Woodland
	San Carlos	

[Source: HCD Report, 1987-88]

POLICY QUESTION: SHOULD THERE BE A PENALTY FOR REDEVELOPMENT AGENCIES WHICH REFUSE TO FILE THEIR REQUIRED REPORTS?

State officials report that they receive many requests for

their publications and the information they contain. Local officials, private consultants, legislative staff, and other researchers often ask the Controller and HCD specific questions about redevelopment activities. For instance, much of the information for the detailed tables in this background paper came from these annual reports.

The 1984 legislation which expanded these reporting requirements contained a six-year "sunset clause," allowing the Legislature to evaluate the effectiveness of its new requirement. These requirements will automatically terminate on January 1, 1991 unless the Legislature extends them or makes them permanent.

POLICY QUESTIONS: DO THE CURRENT REPORTING REQUIREMENTS IMPOSE A GREATER BURDEN ON REDEVELOPMENT OFFICIALS THAN THE BENEFITS THEY CONFER ON STATE OFFICIALS AND OTHER RESEARCHERS?

SHOULD THE LEGISLATURE REVISE THE 1984 REPORTING REQUIREMENTS?

SHOULD THE LEGISLATURE ALLOW THE "SUNSET CLAUSE" TO OPERATE, OR SHOULD THE LEGISLATURE EXTEND THE CURRENT REQUIREMENTS?

SPECIAL LEGISLATION FOR SPECIAL PROJECTS

In a state as large and diverse as California, nearly every statewide statute needs adjustments to fit special local circumstances. The Community Redevelopment Law is no exception. In the mid-1970s, redevelopment agencies became interested in merging project areas to allow the more successful projects help the fiscally struggling areas. Because the Law did not allow mergers, the Legislature passed special legislation for Sacramento in 1976. As the concept caught on, the Legislature created special procedures for San Bernardino, San Leandro, Richmond, Pittsburg, Chula Vista, San Jose, and Santa Fe Springs. Finally, the Legislature adopted a uniform procedure which now applies to all redevelopment agencies. As other local needs emerge, the Legislature has responded by passing special legislation.

Unblighted land in Victorville. The 1983 reform requiring new project areas to be predominantly urbanized took Victorville officials by surprise. They had planned a project area that included a substantial amount of bare land that was not blighted. Rather than redesign the proposed project, Victorville sought and received a special exemption to the reform standard (AB 2598, Goggin, 1984).

Hazardous waste clean-up. When Carson officials learned that some industrial land could not be privately redeveloped because of hazardous wastes, they wanted to use their public redevelopment powers to reclaim the property. Local officials sponsored legislation expanding the description of blight to include hazardous wastes (AB 3966, Elder, 1984). A bill which may expand redevelopment agencies' powers to clean up hazardous wastes is still pending in the Assembly Committee on Environmental Safety and Toxic Materials (AB 2229, Polanco, 1989).

Sanger's steel mill. In 1986, Sanger officials were promoting the construction of a "mini" steel mill, a waste-to-energy plant, and a major bakery in a planned redevelopment area. To make the project financially feasible by capturing property tax increment revenues, Sanger officials wanted to include nearly 360 acres of unblighted agricultural land. Sanger sought and received a special legislative exemption from the prohibition against including unblighted land (AB 2884, Bronzan, 1986).

Tahoe redevelopment. After struggling with the Tahoe Regional Planning Agency for many years, the City of South Lake Tahoe finally agreed on several measures to implement the new regional plan. City officials wanted to use redevelopment powers to remove substandard buildings. Although the properties were below standard for the Tahoe area, they did not qualify as blighted under state law. Local officials sought and received special legislation creating a new standard of blight for the Tahoe Basin. But any redevelopment program that used this new test must be consistent with the "environmental threshold carrying capacities" in the Tahoe regional plan (AB 3600, N. Waters, 1986).

Crenshaw shopping center. The Los Angeles Community Redevelopment Agency created the 45-acre Crenshaw Project Area to rehabilitate the shopping center in a predominantly minority neighborhood. When participation by local minority business owners fell short of expectations, Assemblywoman Moore authored AB 4687 (1988). Her bill would have required redevelopment officials to give a preference to local investors when they dispose of commercial properties in the Crenshaw project. When the Assembly refused to concur in the Senate version, AB 4687 died.

San Bernardino air bases. When federal officials announced plans to close Norton Air Force Base and George Air Force Base in San Bernardino County, local officials feared the economic consequences of losing nearly 40,000 jobs. Local

leaders want to convert the bases from military to civilian uses. Because the bases affect several communities, local officials felt it would be inappropriate to place the redevelopment effort under the control of a single community. Although the Community Redevelopment Law permits joint redevelopment efforts, these arrangements would have been politically cumbersome in San Bernardino. Local officials sought and received special legislation which allows them to set up two joint redevelopment agencies for Norton AFB and George AFB. Further, the bill exempts both proposed project areas from the requirement that the property be predominantly urbanized (AB 419, Eaves, 1989).

But not gangs,"crack," or child care. Earlier this year Governor Deukmejian vetoed two measures which would have expanded the powers of redevelopment agencies to attack crime. AB 843 (Elder, 1989) would have allowed redevelopment agencies to pay for programs to reduce gang-related violence and drug trafficking. Part of AB 1221 (Hauser, 1989) would have allowed redevelopment agencies to pay for the abatement of drug-related properties under the state drug nuisance abatement law. Oakland officials wanted this power to attack "crack houses." The Governor's veto messages expressed his concern that the Elder and Hauser bills departed from the traditional purposes of redevelopment.

In 1988, Governor Deukmejian vetoed two bills which dealt with redevelopment agencies and child care facilities. AB 1070 (Hayden, 1988) would have authorized redevelopment plans to include child care faciltiies. AB 3358 (Roos, 1988) would have required redevelopment plans to include the facilities. The Governor's veto messages called both bills unnecessary.

POLICY QUESTIONS: HOW DOES THE LEGISLATURE DISTINGUISH BETWEEN BILLS THAT ADJUST STATESIDE STANDARD TO LOCAL CIRCUMSTANCES FROM BILLS THAT JUST SERVE SPECIAL ECONOMIC INTERESTS?

NOW THAT THE 1983 "PREDOMINANTLY URBANIZED" REQUIREMENT IS WELL-ESTABLISHED, SHOULD THE LEGISLATURE STILL EXEMPT SPECIFIC PROJECTS FROM THIS STATEWIDE STANDARD?

DISASTER RELIEF

The recent Extraordinary Session reminded legislators that redevelopment programs are among the tools that local officials use to stimulate recovery after natural disasters. When a tidal wave wrecked downtown Crescent City in 1964, the Legislature passed the "Community Redevelopment Financial

Assistance and Disaster Project Law." The State Allocation Board can loan money to redevelopment agencies to speed recovery efforts after floods, fires, hurricanes, earthquakes, storms, tidal waves, or other catastrophes. Over the last 25 years, the Legislature has repeatedly amended the basic redevelopment law without making parallel amendments to the disaster redevelopment law. Redevelopment experts believe that the disaster redevelopment law is outdated and needs revision.

Coalinga. After the May 1983 Coalinga earthquake, the Legislature passed special legislation tailoring the basic redevelopment law to Coalinga's local recovery needs rather than using the 1964 disaster redevelopment law (AB 53, Costa, 1983). The 1983 legislation shortened deadlines, avoided a fiscal review committee, and allowed local officials to use the post-disaster property values as the base year for property tax increment financing.

Whittier. After the October 1987 Whittier earthquakes, the Legislature authorized Whittier officials to use the disaster redevelopment law and avoid the procedural requirements of the basic redevelopment law (SB 5X, Campbell, 1987).

Los Gatos. After the October 1989 Loma Prieta earthquake, Los Gatos officials wanted the Legislature to grant exemptions from the basic redevelopment law so the Town could quickly set up a project area. Local legislators introduced two bills in the Extraordinary Session to help Los Gatos (AB 1X, Quackenbush, 1989 and SB 28X, Morgan, 1989). Santa Clara County officials strenuously objected to the Town's proposal. The Assembly Local Government Committee defeated the Quackenbush bill and the Senate Local Government Committee held the Morgan bill. Additional action may be possible when the Legislature resumes in January 1990.

Santa Cruz and Watsonville. Officials in Santa Cruz and Watsonville fear that they will not be able to meet their redevelopment bond payments because the October 1989 earthquake destroyed so much property. Lower property values mean lower tax increment revenues which may be less than the revenue stream needed to repay their outstanding bonds. City officials sponsored legislation in the Extraordinary Session which creates new base year assessed values for four project areas; three in Santa Cruz and one in Watsonville (SB 39X, Mello, 1989). The Senate Local Government Committee passed the Mello bill which is now in the Senate Appropriations Committee.

POLICY QUESTION: SHOULD THE LEGISLATURE REVISE THE 1964

LAW TO APPLY TO FUTURE DISASTERS, AVOIDING THE NEED FOR INDIVIDUAL BILLS?

APPROPRIATIONS LIMIT

Passed by California voters as Proposition 4 (1979), Article XIIIB of the California Constitution limits the annual appropriations of the state and local governments. More specifically, the so-called Gann Limit applies to "proceeds of taxes," but does not affect revenues which come from benefit assessments, fees and charges, and debt service. As part of its implementation of the Gann Limit, the Legislature excluded redevelopment agencies' property tax increment revenues (SB 1972, Campbell, 1980). Two 1985 decisions validated this exemption: Bell Community Redevelopment Agency v. Woosley and Brown v. Community Redevelopment Agency of Santa Ana.

Because most of the revenues that redevelopment agencies receive are outside the Gann Limit, most agencies are probably exempt from its controls. However, to the extent that a redevelopment agency actually does receive "proceeds of taxes," it must abide by the Gann Limit.

When the State Controller collects fiscal information from cities, counties, and schools, he must also report on their appropriations limits (SB 813, Bergeson, 1987). This requirement does not apply to redevelopment agencies.

POLICY QUESTION: SHOULD STATE OFFICIALS MONITOR REDEVELOPMENT AGENCIES' GANN LIMITS JUST AS THEY TRACK THE LIMITS FOR OTHER LOCAL GOVERNMENTS?

SPECIAL SUPPLEMENTAL SUBVENTIONS

Over time, the Legislature has narrowed the property tax base, exempting several types of personal property from local property taxes: livestock, brandy and wine stocks, baled cotton, motion pictures, and party boats. Until 1980, local officials assessed and taxed business inventories as personal property. The Legislature exempted these inventories from the local property tax base and promised to pay local governments, including redevelopment agencies, for their lost revenues. But for several fiscal years, the Legislature did not fulfill its promise.

As part of the Long-Term Local Financing Act, the Legislature repealed the state subventions for personal property tax exemptions (SB 794, Marks, 1984). To protect redevelopment

agencies against revenue losses, the Legislature gave them early access to revenues from the supplemental property tax roll and created a program of **special supplemental subventions.** The State Controller pays a new state subvention to redevelopment agencies to replace any difference between the new revenues and the repealed subventions. The next Table reports the state's payments.

STATE SPECIAL SUPPLEMENTAL SUBVENTIONS

1984-85	1985-86	1986-87	1987-88
$41.7 M	$50.4 M	$33.3 M	$38.2 M

[Source: Controller's Reports]

These payments from the State General Fund represent a direct state contribution to local redevelopment programs. They vary annually depending on the amount of the revenue produced from the supplemental property tax roll.

POLICY QUESTION: ARE THE SPECIAL SUPPLEMENTAL SUBVENTIONS STILL NEEDED TO PROTECT THE FISCAL INTEGRITY OF REDEVELOPMENT AGENCIES?

INCORPORATIONS AND ANNEXATIONS

As counties gain increasing interest in redevelopment and property tax increment financing, the question will come up repeatedly: what happens to a county's redevelopment project when it is annexed by a city or when a new city incorporates on top of it?

Anticipating this question, the Legislature created a procedure in 1985 to ease the transition. A county continues to govern its own redevelopment project until the annexing city (or the newly incorporated city) agrees to the transition. The city must adopt an ordinance declaring the need for a redevelopment agency and adopt the county's redevelopment plan. The city can amend the plan but it cannot violate any of the county's existing agreements. If the city takes over the entire project area, it assumes all of the debts and revenues. If the city takes over only part of the project area, then the debts and revenues are divided between the city and the county. If the city and the county cannot reach an agreement under these procedures, the project remains under the county's control (AB 1725, Hauser, 1985).

POLICY QUESTION: IS THERE ANY REASON TO CHANGE THE CURRENT PROCEDURES FOR SHIFTING CONTROL OF A PROJECT AREA FROM A COUNTY TO A CITY?

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